

Lesson 1

The History of Money

What if Money Disappeared?

It was a typical day for Chani Strauss as she headed to the supermarket to stock up on essentials. She filled her shopping cart, crossed off her shopping list, and approached the cashier.

As the cashier scanned her items, Chani reached for her purse. "Oh, we do not accept money anymore," the cashier said.

"Sorry?" Chani frowned, slipping out her credit card.

"No, ma'am, no money at all," the cashier repeated. "Did you not hear? The government decided to eliminate money. They said it causes corruption and materialism, and they want a world driven by genuine kindness."

For a moment, Chani was curious. This would mean no greed or pressure, just fairness and peace. It sounded perfect.

But reality soon hit. "How do I pay for my groceries?" she asked. "No idea," the cashier shrugged.

Panicked, Chani left the store. The streets seemed normal, but the bank was closed. She spotted someone carrying grocery bags and asked how they had paid. "I traded some plasticware the cashier desperately needed," the lady replied.

Rushing back inside, Chani found the cashier gone. No wages, no work. Chaos erupted as people looted the shelves. "Where are the police?" she thought, but then realized that they would not work for free, either.

Her initial sense of peace dissolved into terror. *What is happening to the world?* She wanted to scream—until she woke up, drenched in sweat. It was just a nightmare, a glimpse into a world without money.

Words TO KNOW



bartering

double coincidence
of wants

medium of exchange

commodities

unit of account

store of value

durable



THE HISTORY OF BARTERING

We can likely all agree that a world without money is not a viable option. Since money is a crucial component of law, order, society, and culture, let us explore how earlier generations addressed the need for it.

Bartering was an ancient system in which goods and services were directly exchanged. For example, a farmer in need of milk might approach a neighbor with cows, offering a pound of fresh produce in return for a liter of milk. Similarly, a hungry doctor could provide medical care in exchange for a baker's bread products.

However, this system led to significant challenges. Imagine you need a new pair of shoes. You head to the shoemaker, eager to describe your ideal pair. But before you can get a word in, the shoemaker stops you.



Activity

Real-Life Bartering

Instead of simply reading about the struggles of early civilizations with the bartering system, get ready to sharpen your trade skills and experience it yourself.

After joining a group, check out your group's list from the lists below. Your group has several goods and services but lacks essentials from certain categories. Work together to trade with other groups and collect a full set of one essential from each of these five categories: **nutrition, shelter, education, clothing, and health**. The clock is ticking, so get your negotiation skills going.

GROUP A

bottle of water
pair of shoes
2 books
bag of rice
haircut service

GROUP B

gallon of milk
blanket
lesson in math
first-aid kit
box of crackers

GROUP C

5 fresh vegetables
tent
winter coat
pencils and paper
babysitting service

GROUP D

loaf of bread
sweater
sewing kit
jar of honey
medical checkup

GROUP E

clean water
bandages
cooking lesson
pair of boots
chicken

GROUP F

carton of eggs
small bag of flour
warm scarf
health consultation
map

What can you offer in return? Your shoes now depend entirely on what the shoemaker needs. Perhaps he wants a coat, help for his child before a spelling test, assistance for his wife with sifting flour, or even a quick sweep of his shop.

Your transaction is very unpredictable. What if you do not happen to have whatever it is that the shoemaker needs? You try offering other items or services, and finally, the shoemaker accepts your offer to carry heavy boxes for him up a dangerously tall ladder to a storage loft, something you have little interest in.

Another problem was the lack of a clear standard. How much will a coat cost you? One tailor will ask for a bushel of carrots, while another will want a week of tidying up his shop. There is no way to evaluate whether you are being asked a fair price.

This system also relies on something called the **double coincidence of wants**, which means that both parties must want what the other is offering at the same time. If a butcher wishes to buy metal tools and offers fresh meat in return, the blacksmith may want firewood instead. This will be good news for the woodcutter but will leave the butcher stuck with no way to obtain the metal tools. And if the woodcutter has no need for metal tools at the moment, the blacksmith is stuck as well.

It is easy to see why bartering could not keep up as societies grew larger and trade became more complex.

So how did we get from the inefficiency of bartering to the convenience of instant digital transactions? This leap did not happen overnight. Let us take a closer look at how the concept of money evolved through the ages.

As an activity, bartering is probably quite fun and exciting. But as a means of payment, it is daunting, unpredictable, and quite impractical.

MONEY IN THE FORM OF GOODS

When the situation demanded better solutions, society rose to the challenge. At one point, people agreed to use specific materials **as mediums of exchange**¹, such as salt, animal skins, and weapons. While the value of these items was still negotiable, this system offered a smoother and more organized approach compared to traditional bartering.

¹ **mediums of exchange**: specific items, such as money, used to trade with others

FUNFACT



Etymology of the Word Salary

Did you ever wonder why the word salary sounds somewhat similar to the word salt?

Interestingly, *salary* traces back to the Latin word *sal*, meaning salt. In ancient Rome, salt was incredibly valuable. It preserved food, sustained armies, and was even traded as a currency. According to historical accounts, Roman soldiers were sometimes given a *salarium*, an allowance for purchasing salt, underscoring its importance. Over time, the term *salarium* evolved to refer to a broader form of compensation.



THE FIRST COINS MAKE HISTORY

Lydia, an ancient kingdom located in what is today Turkey, is sometimes credited with introducing the world to coins thousands of years ago. They are the oldest coins ever discovered. These coins were small pieces of electrum, a mixture of silver and gold, stamped with an image of the Lydian king, a mark that symbolized authenticity and value.

Suddenly, trade became far more straightforward. With a king's imprint on the electrum, there was no more guesswork about its worth. This new coin system sparked a trading revolution, and the value of electrum soared. Lydia's clever innovation turned it into one of the wealthiest empires of its time, laying the groundwork for the money systems we rely on today.



The ancient Lydian coin **Credit:** Classical Numismatic Group, Wikimedia

PAPER CURRENCY, MADE IN CHINA

Marco Polo was an Italian traveler who visited China in 1270. There, he encountered a mind-boggling discovery: paper currency. The Chinese emperor, with a keen understanding of money management, had introduced paper notes as a substitute for valuable **commodities**². The idea was simple yet revolutionary. Why carry heavy bags of metal coins, gold bars, or blocks of silver when you could use a certified piece of paper that proved you owned these valuable assets? This new system offered immense convenience, allowing people to travel freely without the burden of heavy coins. The logic was brilliant, and its impact was profound.

PAPER CURRENCY TRAVELS AROUND THE WORLD

It took time for paper notes to travel out of China. The first paper notes in Europe are believed to have been used around the 16th century. Individuals had the option of going to the bank and depositing their valuables, whether gold or other metals, and receiving a note for what they owned. At any time, they could bring in their bank note and ask to convert it back into their valuables.

Paper currency became more popular in colonial North America. At the time, many countries in Europe owned colonies in America. Shipping coins there was a lengthy and expensive process, so the colonies produced paper currency. These bills were backed by the government in Europe, whether French or British.

FUNFACT



Counterfeit Warning

You have probably noticed the bold "In God We Trust" printed on the U.S. dollar bill. But did you know that inscribing words on paper currency is not an American invention? Historians trace this practice all the way back to China's first paper notes. The major difference? While the American bill carries a message of faith, the Chinese version includes a much more chilling warning: "Those who are counterfeiting will be beheaded!"

² **commodities:** raw materials

THE COMPONENTS OF MONEY

To be accepted as money, currency needs these three core components:

1. Medium of Exchange

Money serves as an agreed-upon tool to simplify trade. Both parties in a deal recognize its value, and it is accepted by many people as payment. Unlike bartering, for which you must find someone who has what you need and needs what you have, money carries universal acceptance. If you accept money for a sale, you can then use that money to purchase whatever you need, whenever you need it.

2. Unit of Account

Unit of account means that money is a measurement of value accepted by all. This is because money is:

- **Divisible**, meaning it can be divided into smaller units. One dollar can be divided into cents.
- **Fungible**, which means every unit has the same value as the other. Every dollar has an identical value, unlike, for example, diamonds, with each having its own unique value.
- **Countable**, which simply means it can be added up mathematically.

3. Store of Value

Bartering often relies on goods that can go bad, while money can retain its value over time. This is known as a **store of value**. Money allows people to save and plan for future expenses without worrying about their assets going bad. For this reason, money must be **durable**³, so it must be made from materials that are long-lasting and resistant to wear and tear.



Critical Thinking Corner

1. Think carefully about what it would be like if money were to disappear. Come up with different solutions for how the world could survive without money and how it differs from the original nightmare our lesson started with.
2. Imagine you live in a different century or on a remote island where bartering still takes place. You have a family you need to provide for, and you work as a farmer for a living. How would you ensure all your family's needs are met? Try to come up with different methods for bartering in a stress-free manner.

³ **durable**: long-lasting; not easily ruined





Review Questions

1. Where were coins first minted, and what were they like?

2. Why was paper currency a clever invention?

3. What issues did barterers face?

4. Which of the following best describes money?

- A. Something of value
- B. A U.S. dollar
- C. A precious type of metal
- D. An agreed-upon unit used in commerce

5. If most people are happy to trade goods through money, what does money function as?

- A. coincidence of wants
- B. medium of exchange
- C. commodity
- D. Lydian currency