

Barter system essay



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Money, in and of itself, is nothing. It can be a shell, a metal coin, or a piece of paper with a historic image on it, but the value that people place on it has nothing to do with the physical value of the money. Money derives its value by being a medium of exchange, a unit of measurement and a storehouse for wealth. Money allows people to trade goods and services indirectly, understand the price of goods and gives us a way to save for larger purchases in the future. Money is valuable merely because everyone knows everyone else will accept it as a form of payment .

Money, in some form, has been part of human history for at least the last 3, 000 years. Before that time, it is assumed that a system of bartering was likely used.

Barter is a system of exchange by which goods or services are directly exchanged for other goods or services without using a medium of exchange, such as money.[1] It is distinguishable from gift economies in that the reciprocal exchange is immediate and not delayed in time. It is usually bilateral, but may be multilateral (i. e., mediated through barter organizations) and usually exists parallel to monetary systems in most developed countries, though to a very limited extent. Barter usually replaces money as the method of exchange in times of monetary crisis, such as when the currency may be either unstable (e. g., hyperinflation or deflationary spiral) or simply unavailable for conducting commerce.

History

One of the first evidences of bartering is in 6000 BC. The barter system traded all sorts of goods and services, such as weaponry, food, or tea. One

problem that was discovered with the barter system in areas such as Mesopotamia was that there was no way to assign a specific value to the goods and services that were being traded. One of the most popular things traded in the barter system was salt, because it was so valuable. Bartering grew and flourished as people began to travel more during the Middle Ages. The barter system began to be more successful as there were new goods and services being introduced.

The Europeans introduced new things into the barter system market that Americans didn't have access to and also didn't have the money to afford. During the Great Depression, the barter system began to grow even more rapidly than it had been. The Great Depression is one of the most significant time periods throughout the history of bartering. Money was scarce and people had a difficult time getting what they needed. It allowed people to get food or clothing when they needed to and they were allowed to create accounts with businesses.

Traditional economy

A traditional economy is a system where traditions, customs, and beliefs shape the goods and products the society creates. Countries that use this type of economic system are often rural and farm-based. Also known as a subsistence economy, a traditional economy is defined by bartering and trading. Little surplus is produced, and if any excess goods are made, they are typically given to a ruling authority or landowner. Hunting, gathering, and cultivation are the main tasks for workers in a traditional economy. There are big parts of the world's population that still work in traditional

economies, primarily in third-world countries with larger indigenous populations. Underdeveloped areas of South America, Africa, and Asia still rely on this type of economy for survival.

In many cases, a traditional economy may have no official currency whatsoever, with any available wealth going to the upper classes. As neighboring countries and influences permeate a traditional economy, the economic system can morph into a mixed, command, or market economy. In command economies, prices and supplies are determined by the government, while, in contrast, prices in a market economy are set by supply and demand. A mixed economy includes both private enterprise and some degree of government control. One advantage of a traditional economy is that each person has a function in society. Social bonds are thus deepened, people typically feel more unified with the society, and a sense of worth often increases.

Also, because goods are only made for survival, the country's natural resources may not as compromised as in other types of economies. The downside is that individuals tend to remain in set roles in a traditional economy, and their financial well-being rarely increases. Indeed, most of those living in this type of economy find themselves mired in poverty for their entire lives.

The limitations of barter Barter's limits are usually explained in terms of its inefficiencies in easing exchange in comparison to the functions of money.

- Need for presence of double coincidence of wants: For barter to occur between two people, both would need to have what the other wants.

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- Absence of common measure of value: In a monetary economy, money plays the role of a measure of value of all goods, so their values can be measured against each other; this role may be absent in a barter economy.
- Indivisibility of certain goods: If a person wants to buy a certain amount of another's goods, but only has for payment one indivisible unit of another good which is worth more than what the person wants to obtain, a barter transaction cannot occur.
- Lack of standards for deferred payments: This is related to the absence of a common measure of value, although if the debt is denominated in units of the good that will eventually be used in payment, it is not a problem.
- Difficulty in storing wealth: If a society relies exclusively on perishable goods, storing wealth for the future may be impractical. However, some barter economies rely on durable goods like pigs or cattle for this purpose.

The advantages of barter

- Direct barter does not require payment in money (when money is in short supply) hence will be utilized when there is little information about the credit worthiness of trade partners or there is a lack of trust.
- The poor cannot afford to store their small supply of wealth in money, especially in situations where money devalues quickly (hyperinflation).

Extent Of barter Today

It is estimated that over 450, 000 businesses in the United States were involved in barter exchange activities in 2010. There are approximately 400

commercial and corporate barter companies serving all parts of the world. There are many opportunities for entrepreneurs to start a barter exchange. Several major cities in the U. S. and Canada do not currently have a local barter exchange. There are two industry groups in the United States, the National Association of Trade Exchanges (NATE) and the International Reciprocal Trade Association (IRTA). Both offer training and promote high ethical standards among their members. Moreover, each has created its own currency through which its member barter companies can trade.

NATE's currency is the known as the BANC and IRTA's currency is called Universal Currency (UC).[citation needed] In Canada, the largest barter exchange is Tradebank, founded in 1987. In the United States, the largest barter exchange and corporate trade group is International Monetary Systems, founded in 1985, now with representation in various countries. In Australia and New Zealand the largest barter exchange is Bartercard, founded in 1991, with offices in the United Kingdom, United States, Cyprus, UAE and Thailand.[citation needed] Corporate barter focuses on larger transactions, which is different from a traditional, retail oriented barter exchange. Corporate barter exchanges typically use media and advertising as leverage for their larger transactions. It entails the use of a currency unit called a " trade-credit".

The trade-credit must not only be known and guaranteed, but also be valued in an amount the media and advertising could have been purchased for had the " client" bought it themselves (contract to eliminate ambiguity and risk). [citation needed] Soviet bilateral trade is occasionally called " barter trade", because although the purchases were denominated in U. S. dollars, the

transactions were credited to an international clearing account, avoiding the use of hard cash.