ECONOMICS

LESSON VIII.

Money—The Medium of Exchange.

EXCHANGE was originally carried on by means of barter—that is, the giving of one commodity directly in exchange for another. In this case the one party gives something which he has in excess for something else which he needs, and of which the second party has more than he wants. The second party must also be desirous of what is offered by the first.

The great disadvantage in exchange as carried on under the system of barter, is that a producer of a certain commodity will have to waste a great deal of his time in searching for people who both want his surplus product and are ready to give him what he wants in exchange for it. This great difficulty has been overcome, this waste of time avoided, by the introduction of a third commodity, which serves as a medium of exchange—a money. The exchange value of a commodity, as measured in terms of the commodity which is used as money, is called its price.

Medium of Exchange.

Many commodities have at different times in the history of civilization been used as money—as media of exchange. In an early stage of civilization like that of the patriarchs of the Book of Genesis, cattle were used as money; (our word pecuniary is derived from the Latin pecus, a herd). The negroes of Africa still buy their wives with cows. Wampum was used as money by the Indians, beaver skins by the traders of Hudson's Bay, tobacco by the planters of Virginia, and various other articles have been used as money in different parts of the world. But to-day in practically all the civilized countries of the world, gold and silver money have replaced all other kinds. The reason for this will be seen later.