**WEEK 5 Date:……………………….**

**TOPIC: MONEY**

**CONTENTS:**

1. Definition of trade by barter.

2. Problems of trade by barter.

3. Characteristics/Qualities of Money.

4. Functions of Money.

5. Counter trade: Meaning, advantages etc.

**TRADE BY BARTER**

Before money came to be used, trade was carried out by goods being exchanged directly for other goods. This direct exchange of goods for goods is known as barter.

Trade by barter is a form of trading in which goods are exchanged directly for other goods without the use of money as medium of exchange

**Problems of Trade By Barter, .i.e. Why Barter was replaced by the use of Money**

i. The Problem of double co-incidence of wants

ii. No fixed rate of exchange and no common standard of value. This leads to difficulty in assessing the value of commodities.

iii. The problem of storing goods especially perishable gods. i.e. the problems of savings

iv. Indivisibility of goods: Goods which were not perfectly divisible made exchange difficult, especially exchange with smaller units of goods.

v. No standard for deferred payment. This makes is absolutely impossible to pay back with items of equal size, quantity or quality as the one borrowed.

vi. It leads to waste of time and human effort e.g. time and energy wasted to search for somebody to exchange one’s goods with.

Vii. It limits specialization of labour: Trade by barter encourages self-sufficiency, hence it limits specialization of labour.

viii. There is much haggling and cheating.

ix. It does not encourage installment payment

**MONEY**

Money is anything which is generally acceptable as a medium of exchange for making payments and for settlement of debts in a given economy.

**CHARACTERISTICS OF MONEY/QUALITIES OF MONEY**

Or Qualities of a good medium of exchange

**1. Acceptability:-** It must be generally acceptable by members of the community as a medium of exchange.

**2. Portability:-** It must be easy to carry about

**3. Durability:-** It must be something that can be kept for a fairly long time without going bad i.e. it must withstand wear and tear

**4. Scarcity:-** It must be relatively scarce (i.e. not too common)

**5. Homogeneity:-** It denominations must be uniform or be the same i.e. one N50 note must be exactly identical to another N50 note.

6. **Divisibility:-** Money must be easily divisible into smaller units of various denominations e.g. N500, N200, N100, N50, N20, N10, N5 etc.

7. **Recognazability:-** It must be easy to recognize.

8. **Stability in value:-** Its value must be relatively stable and not prone to fluctuations.

9. **Security:-** There must be security marks on money so that it would be difficult to imitate.

10. **Economy:-** The cost of producing and maintaining it must not be too high.

**FUNCTIONS OF MONEY**

The introduction of money has solved the problems encountered in trade by barter. This was possible because money performs the following functions.

1. **Medium of Exchange:** Money serves as a medium through which people can exchange goods and services. This enables it to solves the main problem of barter which is double coincidence of wants.

2. **Measure of Value:-** Money enable us to measure and compare the worth /quality of goods and services.

3. **Store of Value:-** Money is the best form of holding surplus or wealth overtime. It can be kept for a relatively long time though its value falls during inflation.

4. **Unit of Account:-** Money makes the calculation and recording of the values of goods and services bought and sold to be very convenient.

5. **Standard for deferred payments:-** Money enables payments for goods and services to be postponed till a later date. This function is very important in modern times when most business transactions are based on credits.

**FORMS OF MONEY**

**1. Legal tender:-**This is any means of payment or forms of money that is backed by law in a given country and which a trader is compelled by law of the country to accept in settlement of debt.

**2. Quasi Money of Near Money:-** These are documents that can be easily converted to cash e.g. cheques, postal order, money order etc.

**COUNTER TRADE**

Counter trade is barter on the international trade level. It is simply the process whereby goods and services are exchanged between countries without the use of money as a means of exchange. A country engaged in counter trade will therefore exchange its goods not for money but for goods which are provided by the other country with which it is trading.

**ADVANTAGES OF COUNTER TRADE**

1. It facilitates the transfer or exchange of technology

2. It encourages closer economic and political co-operation between countries.

3. It can be used to reduce a country’s stock of external debts

4. It serves to conserve the foreign exchange reserves of participating countries.

5. It is a particularly useful where the goods being exchanged are subject to production quotas imposed by a cartel e.g. **OPEC**.

6. It is useful in developing the infrastructure of a developing economy especially where the foreign contractor involved is willing to take goods in payment for contracts executed.

7. It can be used where a country is facing economic sanctions e.g. loan freeze or freezing of its assets by international financial institutions. It ensures that the country being sanctioned still continues to import goods by barter.

**REVIEW QUESTIONS**

1. Why has barter largely been replaced by the use of money in your country.

2. Discuss the special characteristics that distinguish money from other economics goods.

**WEEKEND ASSIGNMENT**

1. Direct exchange of goods between two countries is known as (a) Counter trade (b) Entrepot trade (c) Barter trade (d) Multi-lateral trade

2. Which of the following means of selling debt is a legal tender (a) Bank note (b) Cheque (c) Money order (d) Postal order.

3. Which of the following makes currency note a legal tender (a) Scarcity (b) Homogeneity (c) Durability (d) Acceptability

4. A cheque is not a legal tender because it is (a) Not transferable (b) Only a representation of money (c) Not mandatory to a creditor to accept it (d) Should be paid into a bank account.

5. Which feature of money facilitates small transactions (a) Divisibility (b) Durability (c) Reconcilability (d) Scarcity

**THEORY**

1. Define the term “Trade by Barter”

2. List five qualities of money

**READING ASSIGNMENT**

1. Essential Commerce for SS by O.A. Longe Page 76 – 80

2. Comprehensive Commerce for SSS by J.U. Anyaele Page 171 – 178

**GENERAL EVALUATION QUESTIONS**

1. State the difference between an ordinary invoice and a proforma invoice
2. State three features of tramp vessels and features of ocean liners
3. Give five reasons why a manufacturer may brand his products
4. List five sources of capital available to a partnership business
5. Explain five factors that encourage the elimination of middlemen from the channel of distribution