

Subject: Commerce

Class: Senior Secondary School 1 (SS1)

Week 4

Topic: History of Commerce II

Sub-topic: Barter System – Advantages and Problems

Lesson Objectives:

By the end of this lesson, students should be able to:

1. Define the **barter system**.
 2. Highlight the **advantages** of the barter system.
 3. Discuss the **problems or limitations** of the barter system.
 4. Explain the reasons the barter system gave way to the use of money.
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1. Definition of the Barter System

The **barter system** is the **exchange of goods and services directly for other goods and services** without the use of money. This was the earliest form of trade used by humans before the invention of money.

✦ Example: A man who has rice can exchange it for salt from someone who needs rice and has salt.

2. Advantages of the Barter System

Advantage	Explanation
No Need for Money	Transactions can be carried out without any currency.
Simplicity	Easy to understand and use in small, traditional communities.
Encourages Direct Exchange	Promotes mutual relationships and trust within local communities.

Advantage	Explanation
Useful in Times of Monetary Crisis	When currency loses value or is unavailable, barter provides an alternative.
Self-Sufficiency Encouraged	Communities depend on their own production and exchange among themselves.

3. Problems or Limitations of the Barter System

Limitation	Explanation
Lack of Double Coincidence of Wants	For barter to work, both parties must want what the other offers at the same time.
No Common Measure of Value	Difficult to know how much of one item is worth another.
Indivisibility of Some Goods	Large or indivisible items (e.g., cow, bicycle) cannot be divided for smaller exchanges.
Difficulty in Storing Wealth	Perishable goods like vegetables or fish spoil over time and cannot be saved.
Difficulty in Deferred Payments	No clear way to measure or agree on future payments.
Cumbersome and Inconvenient	Bulky goods are hard to carry, especially over long distances.

4. Why the Barter System Failed / Gave Way to Money

- **Complexity in Large Markets** – It became difficult to manage trade as societies grew.
 - **Inability to Save or Invest** – Goods lose value or spoil; money holds value better.
 - **Lack of Portability** – Carrying goods around for trade is inefficient.
 - **Increased Human Needs** – Barter was too limiting for expanding commercial activities.
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Examples for Better Understanding:

- A farmer has yams and wants to exchange them for a shirt. He must find a tailor who not only needs yams but is willing to exchange them for exactly the quantity of yams he has.
 - If the tailor wants palm oil instead, and the farmer has none, trade fails.
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Conclusion:

The barter system was useful in ancient economies but had many limitations. Its inability to satisfy the growing complexity of trade led to the **development of money**, which served as a more practical and universal medium of exchange.