

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.