Chapter 13

CHAPTER 13 Money

INTRODUCTION

Everyone buys one item or the other at different times. In order to buy these items, we give our money to a seller in exchange for goods that we want. So everyone needs money because we will buy different items at different times. In this chapter, the historical development of money, its early and modern forms, types of money,
characteristics of money and the functions of money are discussed.

OBJECTIVES

At the end of this chapter, students should be able to:

- Give the definition of the term 'money';
- Explain the historical development of money;
- State the differences between early and modern forms of money;`
- Mention the characteristics of money.

13.1 Definition of Money

Money is anything that is generally acceptable as a means of exchange of goods (buying of shoes, chairs, books, handsets, etc.) and services (payment of electricity bills, payment for postages at the post offices, payment for school lesson, etc.) and a means of settling debts. Money is a legal tender because the law of a country supports that it should be accepted by everybody as a means of effecting payment for purchase of goods and services.

13.2 Historical Development of Money

Money originated from what is called "the trade by barter system". The trade by barter is a process by which goods are exchanged for goods and services for services. For example, an individual might want to exchange chicken with chairs, or exchange yams with cloth. Also a person who is a hairstylist wants to exchange his / her hairstylist service with transportation service. This was how exchange took place before the advent of money. Various materials were used as media of exchange
in different countries and at different times.

Such materials included cattle, hides and skin (used in ancient Greece), gold (used in the United Kingdom), cowries shells (India, China, some parts of Africa and Asia), tea (China), sheep (Rome), rice (Japan), sugar (West Indies, Abyssinia and Arabia), salt (Arabia), iron (Germany), cigar (Manila), beads, copper and clothes; these are
all referred to as commodity money. Cowries were extensively used in West Africa. In Nigeria, they were the most widely-used type of money. Cowries were always arranged in strings of 40, 100 and 200.

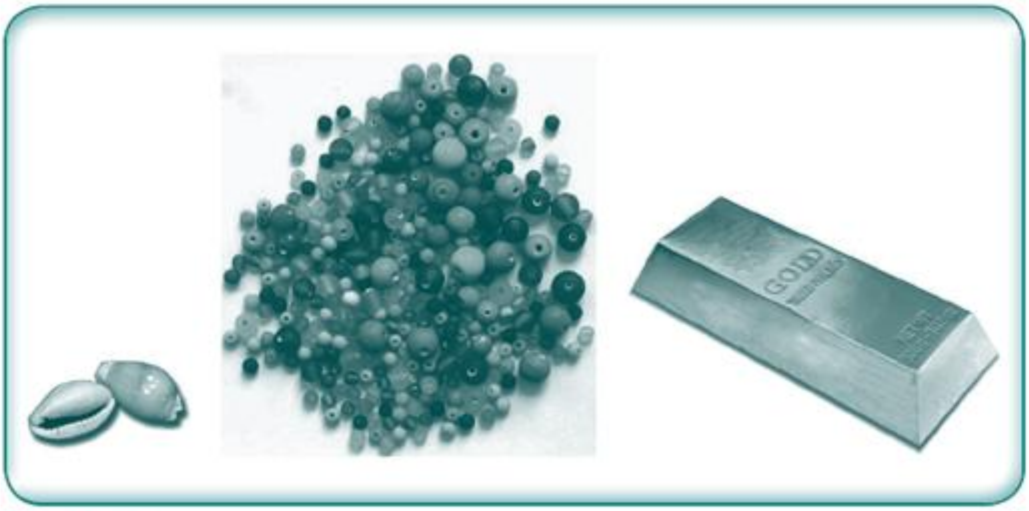

FIG. 13.1 Pieces of cowries, bead and a tablet of gold

13.3 Trade by Barter

Trade by barter is an exchange system which involves the exchange of goods for goods and services for services. It does not involve the use of money, because at that time, there was no money. It is important to indicate that in the process of exchange, only two individuals are usually involved.

Advantages of trade by barter

(a) Products can be exchanged for others: For instance, cloth materials could be exchanged with a tuber of yam.

(b) Best medium of exchange: It was the best medium of exchange in the olden days because there was no money in existence during the barter period.

Disadvantages of trade by barter

(a) Double coincidence of wants: This exists when an individual (Mr. Dauda) with a particular item (meat) will have to find someone (Mrs. Chukwu) who is willing and ready to exchange her own product (Kolanut) with that of the first individual (Mr. Dauda). If on the other hand, both parties (Mr. Dauda and Mrs. Chukwu) do not have what they needed, they will have to move ahead to search for other people who will need those items they wanted.

(b) Has no common measure of value: Th ere is the problem and difficulty of determining the quantity of a commodity or item that should be exchanged for another commodity.

(c) Does not permit a store of perishable products: Items such as fruits are perishable and so cannot be stored for a long period. If there is no demand for them, such items cannot be stored in the house indefinitely and thus become a waste.

(d) There is no standard measure of weight: There is no standard measure of weight for goods to be exchanged with each other. For example, it will be difficult to determine the equivalent weight of a tuber of yam that is to be exchanged with a given quantity of meat.

(e) Some goods are bulky: Th ere are some goods such as cow, furniture, house, and so on that are bulky and cannot be divided into smaller units.

(f) Restriction of trade: Barter is known to be the exchange of goods for goods and services for services. But because there is no room for borrowing of money (granting of credit facilities), trade and industrial activities were therefore restricted.

(g) Encourages subsistence economy: Barter encourages situation where each person fends for himself (subsistence economy) because people are compelled to produce all their needs.

13.4 Modern Forms of Money

Modern forms of money evolved because of the deficiencies found in the early forms of money (cowries, tobacco, cigar, etc.). Samples of modern forms of money:

(a) Coins: Coin is a definite amount of metal, whose weight and fineness are guaranteed by the official stamp of the issuing authority. Examples are the 10K, 5K, 1K in Nigeria. Th ere are coins in Naira denomination and examples are 50K, N1.00, N2.00 and N2.50 coins. Coins are issued by the Central Bank of a country.

FIG. 13.2 Some Naira coins

(b) Bank notes: Currency notes are otherwise called paper money or bank notes. In Nigeria, the currency notes are made of paper and are of different denominations such as; N5, N10, N20, N50, N100,

FIG. 13.2 Some Naira coins

N200, N500 and N1000. A country's Central Bank is responsible for the printing of these currency notes. Th e currency notes are widely used than precious metals or coins; currently, most of the currency notes are backed up in part by government securities, foreign currency and gold. The currency notes are also legal tender in
Nigeria, where a debtor can legally compel his creditor to accept it for payments. It is therefore money within a defined territory. All currency notes are transferable within a country.

FIG. 13.3 Some bank notes

(c) Bank deposits: Th is can also be called bank money or current account deposits or demand deposits. Th e bank deposits are the monies in the current accounts of customers of a commercial bank. Such deposits can be withdrawn by the account holder at anytime by issuing of a cheque. Cheques are money because they can be
transferred from one person to another. Even though cheques are used in some situations in Nigeria, there is yet no law which makes them a legal tender.

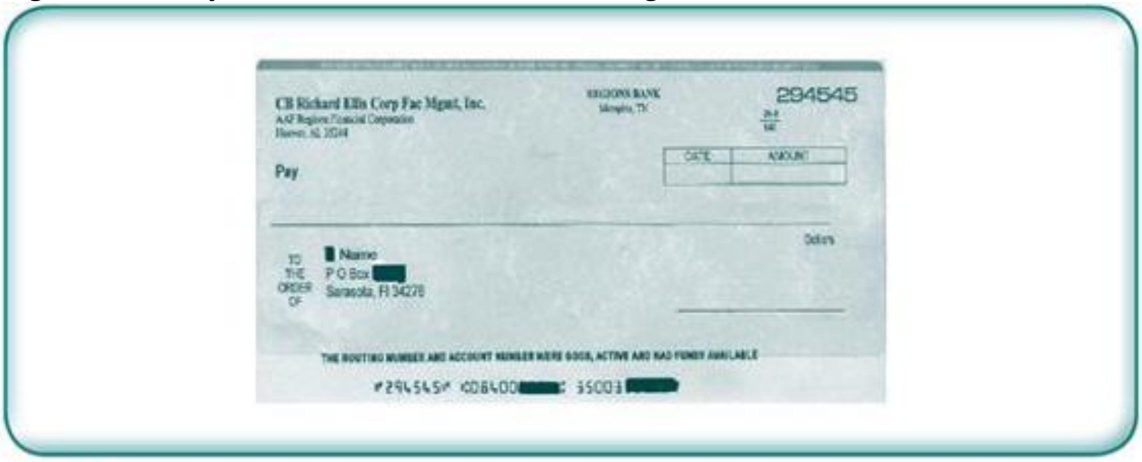

FIG. 13.4 A bank cheque

(d) Quasi-money: Quasi-money is otherwise called near money and they include postal orders, money orders, treasury bills and travelers cheques. They are not transferable and cannot be a legal tender.

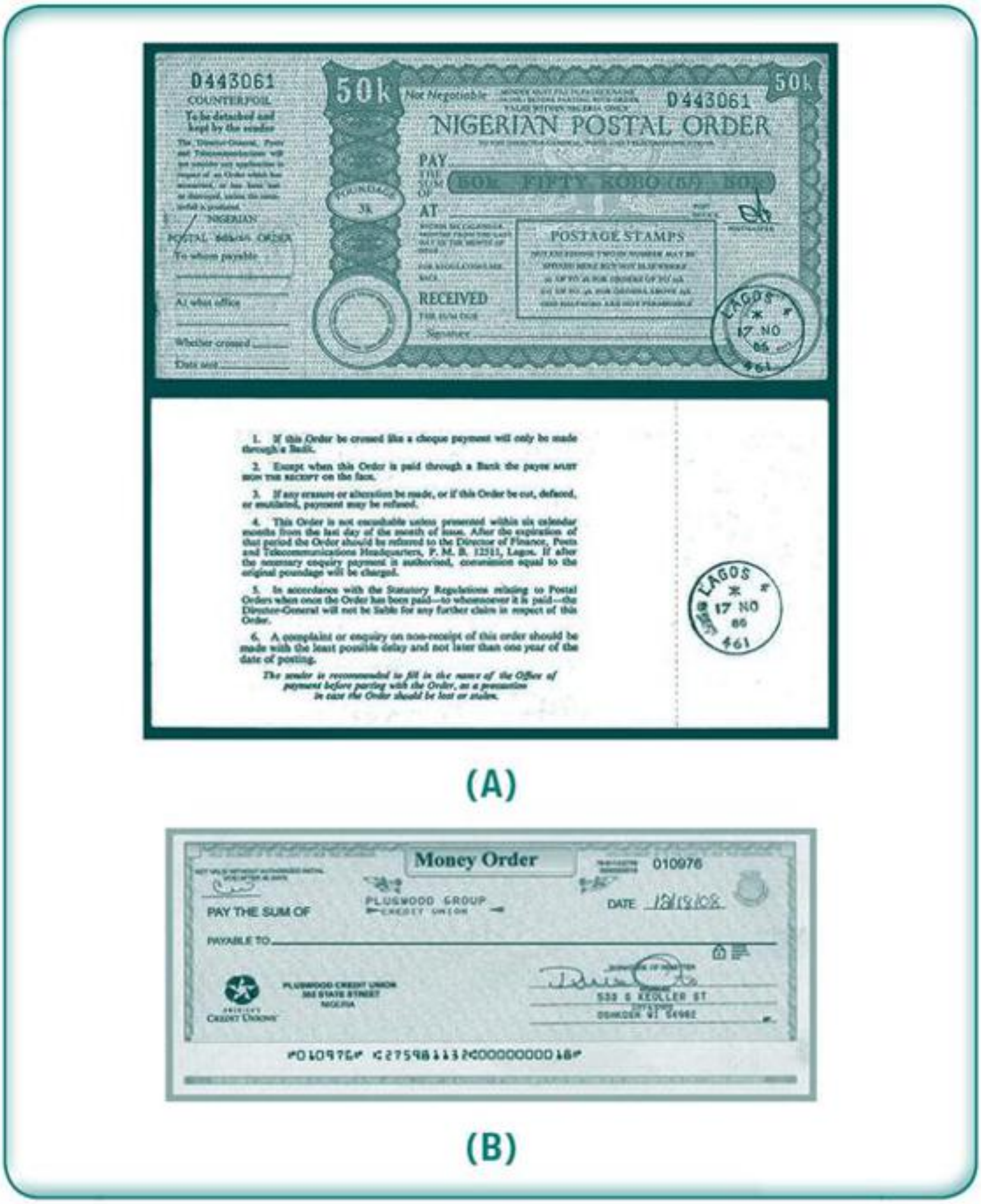

FIG. 13.5 Samples of postal order and money order

(e) Token money: Token money is the money whose face value is greater than the value of the content or the intrinsic value of the money.

Qualities of money

(a) Scarcity: Th e commodity to be used as money should be limited in supply and not be in abundance. Otherwise, it will become cheap and worthless because people will no longer associate any value with it. On the other hand, the commodity called money should not be too scarce to the extent that enough of it will not be
in circulation to meet the needs of the society.

(b) Recognisability: Articles that will serve as money must be easily recognised by the masses. Th e people should be able to distinguish a 5 or 10 naira note from a piece of paper. It should be possible to recognise the different denominations of money
in Nigeria.

(c) Acceptability: Th e article called money must be readily acceptable to individuals within the community. It should be one in which the people have faith and belief. In fact, this is where the issue of a legal tender began. If all the citizens have agreed to use a particular article as money, people should not reject it; hence money is a legal tender.

(d) Portability: Portability is a situation whereby one should be able to keep a reasonable amount of money in his pocket or bag without feeling the weight. Let us assume that Mr. Dauda wants to buy a Mercedes 200 Salon car whose price is N30,000. This amount can be kept in a briefcase and taken to the car dealer's office for payment, given that he wants his payment in cash.

(e) Divisibility: Th is is another quality that money must possess. Money must be capable of being divided into smaller units so as to make spending easy. This is the reason why a country's currency and coins are usually in different denominations. For example in Nigeria, we have the N5, N10, N20, N50, N100, N200, N500 and the highest note N1000. We also have the 1K, 5K and 10K coins. Higher notes of N500 and N1000 can be divided into smaller denominations as required by an individual.

(f) Homogeneity: Money should look alike, both in colour and in size. So, money should not be different in colour and size. A five hundred naira note held by Mohammed in Katsina should look exactly like that held by Adebayo in Ado Ekiti and Emeka in Onitsha**.** If any of such money does not look alike, then it is a counterfeit and subject to rejection.

(g) Durability: Durability has to do with storing of money for a long time without it changing its value or perishing quickly. One of the disadvantages of commodity money is that it cannot be stored indefinitely, because some types of commodities are perishable. Money should not wear out or perish quickly. It should be able to last for a long time without getting spoilt or defaced.

(h) Stability: An item regarded by the generality of the public as money must be relatively stable and not change in value from time to time. Money should not change at all. So, there should not be fluctuation in its value so as to command the confidence of the public. For example, a 20 naira note in the year 2010 should be equal to a 20 naira note in the year 2011. In other words, a naira should be a naira year in and year out under normal circumstances.

Functions of money

(a) Medium of exchange: Money serves as a medium of exchange whereby time and effort that would have been wasted the trade by barter process would be prevented. Goods and services are exchanged for money, and such goods and services are transferred from the seller to the buyer.

(b) Measure of value/unit of account: Money serves as a measuring rod for estimating the values of all goods and services which are to be exchanged. Money enables us to express the value of each commodity in terms of a price. Th e value of a car, a book, a video set, school sandals, and so on can all be measured in terms of naira and kobo if they are bought in Nigeria.

(c) Standard for deferred or future payment: With the introduction of money, payment for items purchased today can be made in future. Therefore, credit financing is now widely practiced by individuals, firms and government, pending the time when money will be available. For example, if the Nigeria Federal Government awards the construction of a 50-km road contract to a construction firm, the money for the road construction is not paid to the firm at once. The construction firm is paid a percentage as mobilisation fee while the balance is paid on completion of the job or at intervals depending on the progress made on the job. Th e introduction of money thus makes credit transactions possible. But under the barter economy, the buying and the selling of a commodity coincides or takes place at the same time. You cannot give somebody a tin of gari now only to come back later for a keg of palm wine. The giving and the taking have to be done at the same time.

(d) Store of value: People save for the rainy day, and the use of money makes it possible for people to save. This role is becoming very important particularly in the area of investment. Individuals, firms and even the government invest in buildings, land, vehicles and other properties. All these can later be sold for money. During old age, a man can sell some of his properties for money to take care of himself. Where we have other interest-yielding assets, there is no need to save money in non-interest-yielding ventures, such as keeping money under the pillows or in cupboards. This is why we say that money serves as a store of value. Without the use of money, it will be difficult to accumulate any asset like building and furniture unless by inheritance.

13.5 Differences Between a Barter Economy and a Monetary Economy

The differences between a barter economy and a monetary economy are presented in Table 13.1.

TABLE 13.1: Differences Between a Barter Economy and a Monetary Economy

Barter Economy	Monetary Economy
Barter encourages subsistence activity since exchange process is not only burdensome but also time-consuming	The use of money facilitates exchange and hence encourages specialization
It is difficult and wasteful to store wealth, because some of the goods are perishable	It is easy to store wealth since money serves as a store of value
Exchange (selling and buying) has to be at once as payment cannot be deferred	Payments can be deferred here as selling and buying can be separated
Divisibility is not only difficult under barter but equally impossible	Money as a unit of account is divisible
Though exchange is possible, there is no common medium of exchange	Money serves as a common medium of exchange and hence facilitates exchange
The value of commodities varies between one transaction and the other since there is no unit of account	As a unit of account, money measures the value of goods and services

Summary

This chapter discussed:

- Historical development of money
- Definition of trade by barter
- Advantages and disadvantages of trade by barter
- Definition of money
- Modern forms of money
- Qualities of money
- Functions of money
- Differences between a barter economy and a monetary economy

Class Activities

(a) Students are to find out from their parents and elders the various forms of money in use in their various localities in the ancient times. They should make a list of such items in their notebooks.

(b) Students are to be shown coins by their teacher (past and present), paper currency and cheques as well as specimens of items that could serve as commodity money, for example gold, manila and silver.

(c) Students should go on an excursion to the museum to look at the past currencies, coins, and commodity money so as to see the development of money in Nigeria.

Revision Questions

Objective Questions

1. Th e greatest disadvantage of the barter system is the need for:
(a) Durability (b) Divisibility
(c) Homogeneity (d) Double coincidence of wants
(e) Portability
2. Which of the following are the reasons for holding money instead

of investing it: (i) Transaction motive, (ii) Precautionary motive, (iii) Speculative motive and (iv) Liquidity motive.
(a) i and ii only (b) i and iii only
(c) i, ii and iii only (d) i, ii and iv only
(e) ii, iii and iv only

3. Th e monetary system that requires a double coincidence of wants is known as the:
(a) Gold standard (b) Barter system
(c) Commodity system (d) Gold exchange standard
(e) Cheque system

4. Which of the following is a function of money?
(a) Portable (b) Standard of deferred payment
(c) Relatively stable in value (d) Generally acceptable
(e) Easily divisible item

5. Which of the following is not a characteristic of money?
(a) Scarcity (b) Durability (c) Divisibility
(d) Homogeneity (e) Mobility

Essay Questions

1. What is money? Why do people hold money? **(SSCE 1997)**
2. (a) What is trade by barter?
(b) Highlight the problems posed by trade by barter. **(SSCE 2005)**
3. (a) What is (i) commodity money (ii) token money (iii) fi duciary issue (iv) quasi-money?
(b) State any four functions of money. **(SSCE 2006)**
4. (a) Explain the function of money as a:
(i) measure of value; and
(ii) store of value.
(b) Show how inflation affects these two functions of money. **(SSCE 2010)**

Glossary

Money: Any item that is generally accepted as a means of exchange.
Trade by barter: A trade situation where goods are exchanged for goods and services for services.