

CLASS: VII
CHAPTER: 11
FROM BARTER TO MONEY
EXAM-PREPARATION NOTES

Key Concepts • Functions of Money • Barter • Specialisation • Flow Chart • Exam Revision

1. CHAPTER AT A GLANCE

- Barter is the direct exchange of goods or services for other goods or services without using money.
- The major difficulty of barter is the double coincidence of wants: each person must want what the other person has.
- Money developed as a generally accepted medium of exchange, making buying and selling easier.
- Money also serves as a unit of account (measure of value) and a store of value.
- Money supports specialisation because people can sell what they produce and use money to buy other goods and services.
- Modern economies depend on money for everyday transactions, pricing, saving and many forms of future payment.

2. WHAT IS BARTER?

- Barter is an economic system in which goods or services are exchanged directly for other goods or services.
- Example: A farmer exchanges wheat for vegetables directly with another person.
- No money is used in the exchange.
- Barter can work well when the wants of the two parties match, but it becomes difficult in larger and more complex markets.

3. DOUBLE COINCIDENCE OF WANTS

- Double coincidence of wants means that both people in a barter transaction must want what the other person has.
- Example: A person with rice wants shoes, while the shoemaker wants rice. Direct exchange is possible only if both are willing to exchange.
- If the shoemaker wants cloth instead of rice, the direct exchange fails.
- This problem makes barter inconvenient, especially when many different goods and services are being exchanged.

4. WHY DID MONEY BECOME NECESSARY?

- Money reduces the need to find a person whose wants exactly match one's own.
- A person can sell a good for money and later use that money to buy another good.
- Money therefore separates the acts of selling and buying.
- Common acceptance is essential: people must generally accept money as payment and trust that others will accept it too.
- Money makes exchange faster, easier and more suitable for large markets.

5. FUNCTIONS OF MONEY

- Medium of exchange — Money is accepted for buying and selling goods and services.
- Unit of account / measure of value — Money provides a common unit in which prices can be expressed and compared.
- Store of value — Money can be saved and used to make purchases in the future.
- Standard for future payments — Money provides a common way to state and settle many future obligations, such as debts or payments.

6. MONEY AS A MEDIUM OF EXCHANGE

- When a customer pays ₹50 for a book, money acts as the medium through which the exchange takes place.
- The seller does not need to want a product that the buyer possesses.
- This removes much of the difficulty created by double coincidence of wants.
- Exam point: medium of exchange is the function that makes buying and selling convenient.

7. MONEY AS A UNIT OF ACCOUNT

- Prices of goods and services can be expressed in the same monetary unit.
- For example, a pen costing ₹20 and a notebook costing ₹60 can be compared easily.
- A common unit of account helps buyers and sellers compare values and keep records.
- Exam point: do not confuse the price of a good with the good's physical quantity.

8. MONEY AS A STORE OF VALUE

- People can keep money for future purchases instead of storing goods that may spoil or become difficult to exchange.
- Money allows purchasing power to be carried from the present toward future transactions.
- The usefulness of money as a store of value depends on its ability to retain purchasing power.

9. FORMS OF MONEY

- Across history, different societies have used different objects or commodities in exchange.
- Metal coins became useful because they could be standardised, counted, carried and recognised.
- Modern economies mainly use currency and other accepted forms of money for transactions.
- The form of money can change over time, but its usefulness depends on acceptance and its ability to perform monetary functions.

10. MONEY AND SPECIALISATION

- Specialisation means concentrating on a particular activity, occupation or type of production.
- A farmer may specialise in growing crops, while a potter specialises in making pots.
- Money allows specialists to sell their products and purchase goods made by other specialists.
- Thus, money supports exchange and economic interdependence.

11. MONEY, MARKETS AND PRICES

- A market is a place or system where buyers and sellers interact to exchange goods and services.
- Money makes it possible to state prices in a common unit.

- Prices help buyers compare alternatives and sellers communicate the amount they expect in exchange.
- Money therefore helps markets function more efficiently than direct barter in complex economies.

12. MONEY AND FUTURE PAYMENTS

- Money can be used to express and settle future payments such as loans and other obligations.
- If someone borrows ₹1,000 and agrees to repay ₹1,000 later, the amount of the obligation is stated in money.
- Trust in the monetary system is important because the receiver expects the payment to be accepted when it is made.

13. BARTER VS MONEY

- Barter: direct exchange; Money: indirect exchange using a generally accepted medium.
- Barter: difficult when wants do not match; Money: reduces the double coincidence problem.
- Barter: values may be hard to compare; Money: provides a common unit of account.
- Barter: some goods are difficult to store or divide; Money can usually be stored and used in later transactions.
- Barter may work for simple exchanges; money is especially useful in large and complex markets.

14. FLOW CHART — FROM BARTER TO MONEY

- People produce different goods and services
- ↓
- They need goods produced by others
- ↓
- Direct barter requires a double coincidence of wants
- ↓
- Barter becomes inconvenient as exchange expands
- ↓
- A generally accepted medium of exchange develops
- ↓
- MONEY
- ↓
- Medium of exchange + Unit of account + Store of value + Future payments
- ↓
- Easier trade + Specialisation + Larger markets

15. KEY TERMS

- Barter — Direct exchange of goods or services without money.
- Double coincidence of wants — Both parties in a barter exchange want what the other has.
- Money — A generally accepted means of payment that facilitates exchange and performs important economic functions.
- Medium of exchange — A generally accepted item used to buy and sell goods and services.

- Unit of account — A common measure used to express and compare prices.
- Store of value — A way of preserving purchasing power for future use.
- Specialisation — Focusing on a particular economic activity or type of production.
- Market — A system or place where buyers and sellers exchange goods and services.
- Price — The amount of money required to obtain a good or service.

16. EXAM-READY SHORT ANSWERS

- What is barter? — Barter is the direct exchange of goods or services for other goods or services without using money.
- What is the double coincidence of wants? — It is the requirement that each person in a barter transaction wants what the other person has.
- Why is barter inconvenient? — It can be difficult to find someone whose wants exactly match one's own, and it can also be difficult to agree on exchange values and handle some goods.
- What are the main functions of money? — Money acts as a medium of exchange, unit of account or measure of value, store of value, and can provide a standard for future payments.
- How does money solve the barter problem? — It is generally accepted as payment, so a person can sell a product for money and use the money later to buy another product.
- How does money help specialisation? — It enables people to sell specialised products and use their earnings to buy goods and services produced by others.
- Why are prices important? — Prices expressed in money provide a common way to compare the values of goods and services.
- Why is trust important for money? — People must expect that money will be accepted by others when they make future purchases or payments.

17. COMPETENCY-BASED EXAM POINTERS

- If a question describes two people who want different things, identify the double coincidence of wants problem.
- If a question asks how a person can sell one item and buy another later, identify money as a medium of exchange.
- If a question gives different prices and asks for comparison, identify the unit of account function.
- If a question describes saving money for a future purchase, identify the store of value function.
- If a question describes a farmer, potter, tailor or other specialist exchanging products, connect money with specialisation and interdependence.
- If a question asks why money must be accepted by people, mention general acceptability and trust.

18. COMMON EXAM MISTAKES

- Do not define barter as buying goods with money. Barter involves direct exchange without money.
- Do not say double coincidence means two people simply meet. Both must want what the other has.
- Do not list only 'medium of exchange' as the function of money; unit of account and store of value are also important.

- Do not say money has value only because it is made of paper or metal. Its usefulness in an economy depends on acceptance and the monetary system.
- Do not confuse specialisation with exchange. Specialisation is focusing on particular production; exchange allows people to obtain what they do not produce.
- Do not confuse price with value in every sense. A price is the monetary amount charged for a good or service.

19. LAST-MINUTE REVISION

- Barter = direct exchange without money.
- Main barter problem = double coincidence of wants.
- Money = generally accepted medium of exchange.
- Three core functions = medium of exchange + unit of account + store of value.
- Money can also provide a standard for future payments.
- Money separates selling from buying.
- Money supports specialisation and interdependence.
- Prices are expressed in money and help compare goods and services.
- Trust and general acceptance are essential for money to function effectively.