

WHY NOT BARTER?

I. HARD TO “CUT A DEAL”

Text talk: Difficult to achieve a “double coincidence of wants”

Meaning: barter is a clumsy, time-consuming, inefficient process. Barter is not very conducive to economic progress and development. Too much time spent in trading goods that should be spent in producing them.

Q. What is meant by the phrase *double coincidence of wants*?

A. Two conditions:

1. Each party must want what the other party has—forming the basis for a voluntary exchange
2. Each party must value the other’s good more than his/her own—else no voluntary exchange will occur

AND HOW DOES MONEY HELP??

Money serves as a “medium of exchange”

If money is generally acceptable in exchange for goods and services (which it is), then it makes it much easier to achieve that “double coincidence of wants”.

By serving as a medium of exchange, money makes it easy to buy stuff. It facilitates voluntary exchange. It reduces “*transactions costs*”. It improves efficiency.

- II. With barter, it is very difficult to write contracts calling for future payment? How do you pay for something over time?**

And how does money help solve this problem?

Money serves as a “standard for deferred payments”

III. With barter, it is difficult to save in order to buy something in the future. What do you save?

And again, how does money help?

Money serves as a “store of value”

Is money a good “store of value”?

Are there other (nonmonetary) stores of value?

Which is better?

IV. With barter, it is difficult to express relative values/prices. For example, what is the value of a durian relative to the price of a banana? or a cantaloupe?

With barter, it's difficult to express relative prices. Money makes it easy. How?

By serving as a “unit of account”

Or a “standard of value”

A common denominator of value