EVOLUTION OF MONEY

SUNANDA

INTRODUCTION

There are three considered basic needs(food, clothing and shelter) These are some essential needs of a man(and woman too!). In early ancient times, these needs were fulfilled but in vain through barter system. Money came into existence when it was needed. It fulfilled needs of a man easily but how it transformed into a credit card that we need to know. There are five stages of evolution – Commodity Money(Goods), Metallic Money(Coins), Paper Money(Bank Notes), Credit Money(Cheques & DDs) and Plastic Money(Credit & Debit Cards).

1. COMMODITY MONEY

Money is a common thing used in exchange for purchasing goods and services. In ancient times, barter system was mostly prevailed in the world. This system started creating difficulties in trade as barter trade cannot be done between two individuals if one has need for something that another have but the latter individual has no need of something that former is offering. For eg: There are two farmers named A and B. A is growing wheat and B is growing rice. A needs rice and he is offering wheat to B but B has no need of wheat which is offered by A and, that's why, B didn't accepted the offer given by A. So, there cannot be exchange between A and B. Thus, common things like shells, pebbles, salt, came into existence as common goods used for exchange. Now A can sell his wheat to C and, in return, he gets shells as money and, with this, he can buy rice from B and thus, his needs could be fulfilled easily through money. This was the birth of money and ancient economy started to develop.

Alcohol

Cocoa Beans

Copper

Gold

Salt

Sea Shells

Silver

Tea

Tobacco

2. METALLIC GOODS

As people started using commodity as a money, new problems came into being. Commodity money had three common defects – perishability, indivisibility and heterogeneity. They were perishable so they couldn't be kept for a long time and so, people couldn't repay their loans or they cannot save it for future needs. It was hardly divisible as commodities like cows, salt, etc are useless if divided. So, it was difficult to buy a product in a value which is half of currency's value. Different commodities were used in different markets or cities as a currency, that's why, inter city trade was almost impossible. For eg: A lives in city X and B lives in city Y. A cannot trade with B because the city X accepts shells for currency and city Y accepts cattle as a currency. So, ancient civilizations devised metallic money to solve these problems. Metallic money was durable – it can be saved for a long time and can be used for future repayments or can be saved for future needs. People of ancient civilizations manufactured coins in different metals to indicate different values – gold coins were used for highest valuable goods and so, it can be divided into smaller values by exchanging gold coin for two silver or three bronze coins which have value smaller than gold coin. Coins were acceptable for more than one cities, so A can trade with B as cities X and Y have accepted same metallic currency system.


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3. PAPER MONEY

As people started using metallic money, it was hardly portable. As trade and commerce increased, people started becoming rich but it was virtually impossible to posses vast amount of coins as they were very heavy and bulky. So, people, during early medieval time in far east, started developing paper money as paper is a material lighter than coins and so they could be carried easily from one place to another and the speed of trade would increased. Now people can posses (somewhat) vast amount of money.


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4. CREDIT MONEY

As money became the household's main needs and greed overtook relationship in its importance, life was not safe and money had no protection from theft. To solve this, a banking system was developed. Through this system, people can save their earning in a given account and can ask loans for needs if they are poor. As moneylenders normally exploited poor people, bank took the responsibility to provide loans without having danger in their life. It is a systematic institution from which people can purchase goods or services by transferring money from their account to the seller's account easily by using an instrument named cheque. Any amount of money, high or low, can be transferred through cheque by writing that amount of money on it. Also, many governments have their own bank for saving and protecting public money and this led control of flow of money in a country's economy. And thus, banking became the backbone of household as well as national economy.


BANK

5. PLASTIC MONEY

When digitization of information & data process started, banks took advantage and digitized their accounts. Also, the age of computer and internet created a favourable atmosphere for creating plastic money. Plastic Monies are of two types – credit card and debit card. ATM started to develop and plastic money could be converted in cash through this machine. Plastic monies are swiped for transaction and nothing but transaction could be done. It has become a symbol of modernity. Modern shops asks for credit card except from people who don’t have it. Only bank balance could be transferred and not plastic card itself. It is portable, durable and divisible.


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