

The History of Money

In the beginning, people bartered. Barter is the exchange of a good or service for another good or service, a bag of bananas for a fish. However, what if you couldn't agree what something was worth in exchange or you didn't want what the other person had. To solve that problem humans developed what is called commodity money.

A commodity is a basic item used by almost everyone. In the past, salt, tea, tobacco, cattle, seeds and shells were commodities and therefore were once used as money. However, using commodities as money had other problems. Carrying bags of salt and other commodities was hard, and commodities were difficult to store or were perishable.

Metals objects were introduced as money around 5000 B.C. By 700 BC, the Lydians became the first in the Western world to make coins. They used gold and silver to mint their own series of coins with specific values. Metal was used because it was readily available, easy to work with and could be recycled. Since coins were given a certain value, there was no need for disagreements about what something was worth in exchange. Doing your shopping became much easier.

For big purchases you needed a lot of coins. Travelling around with lots of coins was not only a hassle, it was also dangerous. So people brought their gold and silver coins to a goldsmith. He kept the metal coins and in return he wrote a note, declaring how much gold and silver coins were traded in. This piece of paper was then used by the owner to make his purchase. The shopkeeper could always exchange this piece of paper at the goldsmith for gold and silver coins. The 'IOU'-paper (i owe you) given by the goldsmith can be considered to be the first bank note.

With the introduction of paper currency and non-precious coinage, money itself no longer had to be very valuable. This money was backed by a government or bank's promise to exchange it for a certain amount of silver or gold. The same as did the goldsmith. For most of the nineteenth and twentieth centuries, the majority of currencies are based the use of the gold standard.

Nowadays money is given value by a government fiat or decree, in other words enforceable legal tender laws were made. By law the refusal of "legal tender" money in favor of some other form of payment is illegal.

Besides the coins and notes, we now have what we call 'plastic' and 'invisible' money. Credit and debit cards are considered plastic money while payments done on your computer at home or using your mobile phone is considered 'invisible' money.