

Barter and Money

Overview

In this lesson, students will gain an understanding of the role money plays in the US economy. The lesson begins with a simulation of a barter economy and discussion of the need for money. The students will then learn about the characteristics, functions, and types of money through discussion and reading an informative comic book about money.

Grade

10

NC Essential Standards for American History: The Founding Principles, Civics & Economics

- FP.E.2.1 - Explain the basic concepts of trade (e.g., including absolute and comparative advantage, exchange rates, balance of trade, gains from trade, etc.)

Essential Questions

- What is the definition and function of money?
- Why do societies use money?
- What characteristics are necessary for money to be used effectively?

Materials

- Barter simulation (*Handout 1*), attached
- “The Story of Money” comic books; copies are available at <http://ia600202.us.archive.org/23/items/gov.frb.ny.comic.money/gov.frb.ny.comic.money.pdf>
- “The Story of Money” Guided reading questions (*Handout 2*), attached
- Picture of US currency (*Visual 1*), attached
- Sample test questions and answer key, attached

Duration

45-60 minutes

Procedure

Warm Up: Barter Simulation

1. As a warm up, the students will participate in a simulation of bartering goods. Teacher should:
 - Print 1-2 copies (depending on class size) of *Handout 1: Barter Simulation*.
 - Cut the sheets on the solid lines (not the dashed), so that each student will receive one square that includes both a good that they “want” and a good that they “have”.
 - You may want to print a square for yourself as well so that you can model the difference between a “want” and a “have”
 - Give each student a square. You may want to already have these placed on student desks turned over with instructions for students not to look at their sheet until told to do so.
2. Project and explain the following instructions to students:
 - Each of you has been given a sheet of paper. On this sheet of paper, you are given a particular good that you have. Example: “You have 4 bales of hay”. The sheet of paper also states a good that you want. Example: “You want 5 pigs”
 - The goal of the simulation is for you to trade with your classmates so that your “want” is the same thing as your “have”

- In order to trade, you should tear your sheet of paper at the dashed line. You may trade away your “have”, but you must keep your original “want”
 - When your new “have” matches your original “want”, return to your seat.
3. All students to begin the barter. Do not try to work it out so that every student will be able to find someone to trade with. The real goal of the simulation is for some students to not be able to match their “have” with their “want”, but do not tell the students this beforehand.
 4. Allow the simulation to go on for about 5 minutes. Not everyone is going to be able to reach their goal, so monitor and end the simulation when you think as many people have found a match as are going to. After students have returned to their seat, ask students the following questions and discuss:
 - Raise your hand if you were able to match your “want” and your “have” after one trade? Two trades?
 - Raise your hand if you were not able to match your “want” and your “have” from trading?
 - Why were some of you all able to get someone to trade with them and others were not?
 - Was there anyone with a good that no one wanted?
 5. Transition into discussing why society has replaced the process of barter with the use of money. Define barter for the students and project the following definition onto the board:
 - **Barter** is a type of trade in which goods or services are directly exchanged for other goods and/or services, without the use of money.
 6. Draw a “T-chart” on the board, labeling one column with a “+” sign and the other with a “-” sign. As students discuss the following questions, record their responses to the first two on the chart:
 - Based on the simulation, what are the benefits of barter?
 - Based on the simulation, what are the drawbacks to using barter?
 - How do we get the things we want now?
 - Why do you think money has replaced barter?
 - In what ways is using money more efficient than barter?
 - What are the drawbacks to using money?
- **Note:** If you have time, students may benefit from filling in a graphic organizer to compare a barter economy and a money economy. See the example at:
http://www.readwritethink.org/lesson_images/lesson275/compcon_chart.pdf
7. Next, project the definition of the word money on the board:
 - **Money** is anything that is generally accepted as payment for goods and services and repayment of debts.
 8. On the board, project images of United States currency such as *Visual 1* (attached). Ask the students to brainstorm words/ characteristics that come to mind as they observe the image. Record their responses on the board. As students brainstorm, encourage them focus on the various characteristics that all money has in common, rather than just the US dollar. Extend the activity by giving each student a 2-3 stickers and instructing them to vote on the characteristics of money that they think are most necessary. Lead the students to the following characteristics that money needs to be effective:
 - Durability
 - Portability
 - Acceptability
 - Divisibility
 - Stability in value

9. Pass out copies of “The Story of Money” comic book and the attached guided reading questions (*Handout 2*). Have students read the comic book and complete the questions. (Comic books are available online at <http://ia600202.us.archive.org/23/items/gov.frb.ny.comic.money/gov.frb.ny.comic.money.pdf>. A maximum of 30 copies are free per teacher and take approximately two- three weeks to arrive. Teacher will review answers to questions with the students.)
10. Once students have completed the reading and questions, discuss the answers as a class. Teachers should eventually focus the discussion on the three functions of money. All are defined within the comic book and in the guided reading questions, but can be elaborated upon. They are:
- Medium of exchange
 - Standard/Measure of value
 - Store of value
11. Inform the students the students that there are multiple types of money. The comic book previews some of these types. Define the following types of money and project onto the board:

1. Commodity money- money whose value comes from a natural resource or good out of which it is made. Examples of commodities that have been used as mediums of exchange include gold, silver, copper, salt, peppercorns, large stones, decorated belts, shells, alcohol, cigarettes, cannabis, and candy.

2. Representative money- money that consists of token coins, other physical symbols such as certificates that can be reliably exchanged for a fixed quantity of a commodity such as gold, water, oil, food, etc.

3. Currency- coins and paper money

4. Fiat money- money used as the circulating medium of exchange that is not backed by or directly convertible into any specific physical commodity, but rather has value because the society that created the system that has assigned it value

5. Legal tender- money that by law cannot be refused as a medium of exchange

- **Note:** Teachers should also emphasize that the US currency is both **fiat money** and **legal tender**. Many students have the common misconception that money is still backed by gold, and is thus representative money.

Culminating Activity

- Assign the students to groups of 3-4. Inform them that their high school has decided to issue its own money and the students have been asked to design the currency and create a table of the value of the currency in relation to certain commonly used school supplies.
- The money should:
 - Be colorful with multiple illustrations that relate to high school life and their school in particular
 - Meet the major characteristics of effective money discussed during class
 - Have at least three difference denominations (divisible units)

Lesson Extension

- Have the students visit http://www.clevelandfed.org/learning_center/online_activities/barter_island/ and play the “Escape from the Barter Islands” interactive simulation of bartering. The students will be asked to barter multiple times on two island, and on the final island will be able to use coconuts. The simulation last at most five minutes and therefore is probably not worth having to students move to a place in the school

with computers. Consider having the students complete the simulation outside of class and complete a short reflection of the simulation, how it highlighted the benefit of using money, and how it compared to the simulation completed in class.

- Have students visit <http://www.frbatlanta.org/about/tours/virtual/money/> and learn about the history of money in the United States. The tour takes students from popular barter goods through the major eras of US history up to the FED's current role in price stability.

Handout 2: “The Story of Money”

1. What is barter?
2. What is a “coincidence of wants”?
3. Why is barter time consuming?
4. How does division of labor improve standard of living?
5. Describe using money as a medium of exchange.
6. Does money have to have intrinsic value in order to be acceptable?
7. Why does money need to be divisible?
8. What does fungible mean?
9. Describe using money as a standard of value.
10. Why must money be relatively stable in value?

Visual 1



Practice Test Questions

1. When a consumer wants to compare the price of one product with another, money is being used primarily for which function?
- A) store of value.
 - B) unit of account.
 - C) checkable deposit.
 - D) medium of exchange.

2. Which of the following is the **most important** advantage of the medium of exchange function of money?

- A) money transfers purchasing power from the present to the future.
- B) money measures the relative worth of products.
- C) money reduces the complications of barter.
- D) money allows people use credit cards instead of currency

Use the following to answer question 3:

<u>Items</u>
1. Agricultural products
2. Savings deposits
3. Gold
4. Currency
5. Credit Cards
6. Checkable deposits

3. Refer to the above list. Which of the choices from below from the list would be considered money in the US economy?

- A) 1, 3, 4
- B) 2, 5, 6
- C) 2, 4, 6
- D) Only 4

4. Where does the value for United States currency come from?

- A) It is legal tender and is backed by the gold and silver of the Federal government.
- B) It is generally acceptable in exchange for goods or services and is backed by the gold and silver of the Federal government
- C) It is legal tender and is generally acceptable in exchange for goods and services.
- D) It is legal tender and maintains the exact same value over time.

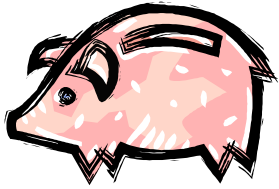
5. What is **not** a reason for the replacement of barter in the United States' economy with the use of money?

- A) money is easily divisible
- B) money can never be destroyed
- C) money eliminates the need for a coincidence of wants
- D) money allows for greater economic specialization

Practice Multiple Choice Questions- ANSWER KEY

1. **B)** unit of account.
2. **C)** money reduces the complications of barter.
3. **C)** 2, 4, 6
4. **C)** It is legal tender and is generally acceptable in exchange for goods and services.
5. **B)** money can never be destroyed

Handout 1



You want 5 Pigs



You have 4 bails of hay



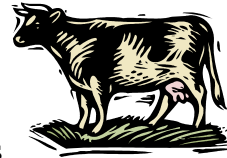
You want 5 Pigs



You have 4 bails of hay



You want 2 cows



You want 2 cows



You have 5 pigs



You have 5 pigs



You want 40 boards of wood



You want 40 boards of wood



You have 2 cows



You have 2 cows



You want 4 candles



You want 4 candles



You have 40 boards of wood



You have 40 boards of wood



You want 4 bails of hay



You have 4 candles



You want 4 bails of hay



You have 4 candles



You want 2 chickens



You have 15 ears of corn



You want 2 chickens



You have 15 ears of corn



You want 15 ears of corn



You have 6 bundles of rope



You want 15 ears of corn



You have 6 bundles of rope



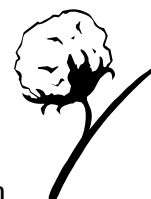
You want 6 bundles of rope



You have 8 bags of cotton



You want 6 bundles of rope



You have 8 bags of cotton