This teaching guide begins with an explanation of the role of money in the economy, focusing on its circulation or exchange. The use of money as a unit of account, a store of value, and a medium of exchange are explained. Three brief teaching units are included. The grade K-2 unit, "Money Counts," provides games and activities which develop the concept of money and its use as a medium of exchange. "Who Needs Money?" is a unit intended for grades 3 and 4. It provides 7 activities which highlight the use of money as a store of value, a measure of the value of services, and a facilitator of exchange and interaction. A secret code "money message" worksheet is also provided. The grade 5-6 unit, "Bingo! It's Money!" provides a classroom trading experience, a product manufacturing activity, a discussion, and a money bingo game to help older students explore the role of money in our economy. (JDH)
THEME: MONEY AND EXCHANGE

AN INTRODUCTION

To those readers unfamiliar with this newsletter, The Elementary Economist is a quarterly publication of classroom-tested activities designed to bring economic themes into the elementary classroom. The activities and student materials which are grouped into three levels — K-2, 3-4, and 5-6 — have been developed and written by classroom teachers across the country. The Elementary Economist, beginning its fourth year of publication, is produced by The National Center of Economic Education for Children, located at Lesley College, Cambridge, Massachusetts.

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DIRECTIONS

By William B. Walstad

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Everybody knows about money, even young children. They know about the need for money to purchase goods and services. They know about the scarcity of money when they say, "I wish I had more money to spend." They know about the value of money when they save it or try to keep it from being stolen. Money is one of the few topics that children talk about with intense interest on a daily basis.

Unfortunately, while elementary students understand the personal significance of money to their daily lives, they do not understand the economic significance of money for the functioning of the economy. To illustrate the role of money in our economy, an analogy would be helpful. If you consider the economy to be similar to the human body, then money would be similar to blood, and as the circulation or exchange of blood is vital to the human body, the circulation or exchange of money is vital to the well-being of the economy. Most students, when asked for the meaning of the terms, "economy" or "economics," would say that "it is about money," but as the above analogy suggests, money is only one part of our economy and only one topic in economics.

From personal experience, children know what blood is or what money is, yet they will need help from their teachers if they are to learn about the functions of blood for the human body or money for the economy.

A Unit of Account

Money serves a number of functions in our economic system. First, money is a unit of account or a way to measure the value of goods and services. Elementary teachers should be familiar with the concept of a common denominator for adding, subtracting, or comparing fractions. Money serves as a common denominator for adding, subtracting, or comparing products in our economy.

For example, how do you compare a candy bar with a notebook? It is difficult to make the comparison without money. If, however, you know that the candy bar costs 50¢ and the notebook costs $3.00, then a comparison can be made and the relative costs of a decision (to buy one item over another) can be easily determined: purchasing a notebook is equivalent to giving up six candy bars or $3.00 worth of another desired good. Or, as another example, if one worker earns $3.00 an hour and another worker earns $9.00 an hour, then you are able to make a comparison about the relative value of the labor time of the two workers in our society: one worker has three times the market value as another worker. You may not like the above value comparisons and feel that they are unfair. You may think that a notebook is worth more than six candy bars, or a $3.00-an-hour worker is a more valuable member of our society than a $9.00-an-hour worker, but those views reflect your value judgment. For most products and resources, prices are set by supply and demand in the market and their economic value is stated in money terms so we can more easily obtain information and make economic decisions.

A Store of Value

Money also serves as a store of value for the economy and gives you command over future goods and services. When you sell a product or your labor and receive money in return for it, you can save it until you are ready to make a purchase. Money lets you control the timing of economic decisions, and this means you have more freedom of choice.

As long as the money holds its purchasing power between the time you receive it and the time you spend it, it is an effective store of value for you and makes buying and selling more convenient. However, during periods of inflation when market prices are changing rapidly, it is not possible to know the extent of your command over goods and services. Rapid inflation leads to a fall in the purchasing power of money and causes instability in the way people make exchanges in our economic system. As people look for ways to maintain the purchasing power of their money, they will seek more advice on money matters and interest

(continued on page 8)
MONEY COUNTS

by Mary Ella Morgan

Mary Ella Morgan is currently teaching second grade in Townsend, Delaware, where she regularly incorporates economics into her classroom activities. She has also been a teacher of the primary and middle elementary grades.

Money and Exchange

What does money mean to children? It means they can buy something. Primary school-age children do not usually have money with them to make incidental purchases. It is normal behavior for children ages five, six, and seven to trade one good for another. Although children observe adults using coins, currency, and checks as a medium of exchange, they are comfortable in the barter system (trading or exchanging objects and things, such as stickers, baseball cards, etc.) They can be shown, however, that in the marketplace it can be very time-consuming to identify a trading partner and negotiate an exchange; and that the exchange of money for a good or service is more efficient and allows for more flexibility. It becomes clear why our society uses money as a means of exchange.

Goals

The students will:
1. Understand why money is necessary as a common means of exchange.
2. Explain some of the characteristics of money. (It must be acceptable to everyone, easy to handle, and difficult to counterfeit.)
3. Demonstrate the value of U.S. coins.
4. Decide whether coins, currency, or demand deposits (checks), are appropriate for an exchange in a given situation.
5. Understand the following terms: barter or exchange — to trade one thing for another consumer — anyone who buys goods and services currency — dollar bills or paper money counterfeit — pretend, not genuine demand deposits — checking accounts goods — tangible items people are willing to buy service — a task performed for payment

Teaching Activities

1. What is Equal? Have the children select five local stores and list their names on the blackboard. Under the name of the store, list several goods which might be purchased at each. Suggest five different things that could be used as money. For example, the hardware store will accept only salt as its medium of exchange, the music store accepts bronze fishhooks, the shoe store takes rabbit tails, the bakery uses shark's teeth, and the meat market uses seagull feathers. Decide together how much the goods listed under each business will cost. A chocolate layer cake at the bakery might sell for four shark's teeth. A new hammer at the hardware store might cost two pounds of salt. Next, have the class make up a shopping list including items from four of the five stores listed on the board. Give each child five cards with which to go shopping. Each card will have the name and/or picture of one of the kinds of money and a number designating the quantity.

<table>
<thead>
<tr>
<th>fishhooks</th>
<th>rabbit tails</th>
<th>salt</th>
<th>fishhooks</th>
<th>seagull feathers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>5</td>
<td>3 lbs</td>
<td>1</td>
<td>10</td>
</tr>
</tbody>
</table>

As a student tries to shop, he/she will need the correct type of "money" at each store. If the student does not have it, a trade can be made with another consumer in the classroom. Several consumers should shop at one time. After everyone has tried to buy their goods, discuss with the children the problems they had completing their shopping trips. Do their parents have these problems when they shop at several stores? Help them arrive at the reasons that the same unit is accepted by everyone. (The size is convenient to carry; it is easily divided to simplify making change.) Discuss the characteristics of each type of money used in the pretend town. Will it melt, break, or decay? Is it too small or too heavy? Can it be divided easily? Is it all the same value? How many seagull feathers equal one shark's tooth? Would it be difficult to counterfeit the kinds of money used in the make-believe town?

2. Common Money. Divide the class into five groups or families. Each group specializes in the production of one good or service. To survive, the families need things produced by other groups. They will need to trade some of their surplus goods and services for items necessary for their survival. The following chart shows how much each group produced and traded.

The National Center of Economic Education for Children, Lesley College, Cambridge, Mass. 02238
PARENT CORNER

To help children experience money and exchange, parents should let them "pay" the bill for various purchases. Stress that they are giving up the money to get something in return.

<table>
<thead>
<tr>
<th>GROUP</th>
<th>PRODUCT</th>
<th>AMOUNT PRODUCED</th>
<th>MUST KEEP</th>
<th>MAY TRADE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farmers</td>
<td>wheat</td>
<td>4 baskets</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Weavers</td>
<td>cloth</td>
<td>6 bolts</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Cattlemen</td>
<td>cattle</td>
<td>5 pounds</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Coopers</td>
<td>barrels</td>
<td>7 barrels</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Millers</td>
<td>flour</td>
<td>6 pounds</td>
<td>1</td>
<td>5</td>
</tr>
</tbody>
</table>

Give the farmers 4 cards with "wheat" on each card; the weavers get 6 "cloth" cards; the cattlemen get 6 "beef" cards; the coopers get 7 "barrel" cards; and the millers get 6 "flour" cards. The object is for each group or family to have one card of each commodity at the end of the trading time. Have one member from each group go to another group to make a trade. When that member returns, let a different person in the group have a turn at trading. Continue until one group has successfully acquired a card of each commodity. If no group has done so, stop the trading. Extract from the situation that a common unit of exchange would make purchasing goods and services easier. An example of a common unit of measure used in the past is tobacco and salt.

3. Know Your Coins. (Small group activity). Bring in a jar of pennies and one nickel, dime, quarter, and fifty-cent piece (or use cardboard facsimiles). Spread one of each coin on a long table in ascending order of value (from penny to fifty-cents). Have children gather around the table and ask them if they know what each coin is called and how much each is worth. Ask what purchases they have made using a dime, quarter, or what their school milk and lunch costs. Have one student at a time count out pennies and place them in neat rows of five under each coin to show the value of each in terms of pennies. Seeing the rows of five pennies increase from one coin to the next helps young children grasp the value placed on each coin. Simplify or expand the activity (counting in fives, tens, totalling two coins to equal one, counting pennies to equal $1.00).

4. Coins, Currency, or Check. The money supply is made up of coins, currency, and checks (or demand deposits). Checks represent a written order which allows a depositor, without previous notice, to transfer all or part of his/her deposited money from the bank to another individual, store, company, bank, etc. Generally, a check is used when a formal receipt or proof of payment is required, while currency and coins are used for everyday needs and purchases. Let children suggest which form of money is best to use in various situations. Make a wheel out of cardboard. Divide it into many sections, and on each print a money transaction. Have clip-style clothespins with the word "coins," "currency," or "checks" printed on each pin. Students will clip the correct pin to the answer.

This can be a self-correcting activity by putting corresponding colored dots on the back of the transaction wheel. You can write the word "coins" in green on the clothespin and put a green dot on the back of each section which requires coins. Use two other colors for currency and checks. This could be integrated with a math lesson on money. The pay phone costs 20c, what coins would you use? The soda machine takes 45c, what coins would you use?

5. Pay for It. Have the children cut out or draw pictures of inexpensive toys or other items they would like to own (This may be done at home or in the classroom.) Paste each picture on a separate piece of paper and direct the students to put a price of less than one dollar under the picture. Give out play money in coins, each child receiving about two dollars. Play store. The children will experience the exchange of money for goods.
WHO NEEDS MONEY?

by Kaye LeFebvre

Kaye LeFebvre teaches second and third grade in the Amphitheater School District in Tucson, Arizona. She was a writer for the Arizona Consumer Education Curriculum Guide in 1981 and has developed many student learning centers dealing with economics which are shared with other teachers in Southern Arizona.

Money and Exchange

Children are probably more familiar with money when they come to school than they are with any other aspect of our economy. This knowledge, however, is generally quite superficial. Consider the comment of a small child to its mother upon being told she has no money to buy that toy. The child will answer, "Well, use a check." It is important that children learn that money is an invention that allows us to store wealth easily and conveniently. Money provides a medium of exchange, and it allows the people of our society to interact with one another and to specialize in producing goods and services.

Goals

The student will:
1. Recognize the importance of money as a measure of the value of goods and services.
2. Identify money as a store of value.
3. Identify money as a medium of exchange.
4. Define the terms "barter" and "trade."
5. Recognize money as a facilitator of specialization in occupations.
6. Demonstrate the ability to count money of U.S. denominations.
7. Explain, in simple terms, what constitutes the money supply.

Teaching Activities

1. Money measures the value of goods.

   Put a collection of five objects in a place where all students can see them. These objects could be items easily found in a classroom, such as a notebook, pencil, scissors, ruler, box of crayons, pen, and/or eraser. Ask the students to try to arrange these objects in ascending order according to the value of each item. After the class has come to a consensus as to the order in terms of value, ask individual students to give reasons as to why some items are more valuable than others. In your discussion, money will surely surface as an important factor in assigning relative values. At this point, ask students to assign dollar and cent values to these items. To introduce the fact that money takes many forms, ask the students to explain how many pencils would equal the price of one notebook; how many erasers would equal the price of a pair of scissors and so on. Point out that money, no matter what its form, allows us to easily compare the values of differing goods.

2. Money measures the value of services.

   On a chalkboard or chart paper, list these services:
   - defend a murderer in court
   - mow a lawn
   - give an allergy shot
   - water four house plants
   - build a carport
   - perform a heart transplant on a human being
   - prepare breakfast for four people
   - replace an automobile engine
   - fill cavities in three teeth

   Ask students to discuss the amount of time involved in performing each of the services. Discuss with them the amounts of time and money necessary to perform these services. (One might mow a lawn in one hour and learn how to mow the lawn in fifteen minutes. It may take a mechanic six months to learn how to replace an automobile engine and one working day to do the job.) Help students to understand that because these services require different amounts of preparation, and because they require different amounts of time to complete and different tools to do the job, their respective measures of value may be different. Money allows us to measure these values by paying three dollars for the mowing of the lawn and three hundred dollars for the service of replacing the engine.

3. Money is a store of value.

   Print one word from the list below on each of eleven 3 x 5 inch index cards.
   - butter
   - dresses
   - pencils
   - cattle
   - apples
   - cats
   - bottle caps
   - eggs
   - paper
   - shoes
   - candy

   Divide the students into groups of three or four. Distribute one card to each group. Ask students to pretend that they live in a world in which money has not yet been invented. Tell them that the word on the card is what they are saving in order to store value. Ask each group to list the advantages and disadvantages of saving this item. Allow ten minutes of small group work, then return to large group for sharing of ideas.
4. **Money facilitates exchange and interaction of people.**

Have students suggest services which people can provide for one another. List these on a chalkboard or on chart paper as suggestions are made. If students have difficulty getting started, make some suggestions such as:
- dentist fixes teeth
- garbage workers collect garbage
- babysitter takes care of children
- custodian sweeps and dusts the school

When the class has a list of ten services, ask students to explain how these services are exchanged or how payment is made. Of course, money will be discussed as the primary means of payment. Bring up the subject of barter or trade and how it would have limited uses in trading for services. The garbage worker would collect the dentist's garbage only when his teeth needed to be fixed. Therefore, the dentist would have to let his garbage pile up for half a year or would need to take time away from his dental chores to remove his trash regularly.

Emphasize that money allows people to specialize, to do what each does best. Money makes it easier for people to exchange services.

5. **What is money?**

1. Ask students to suggest different forms of money. List their answers on the chalkboard. Try to elicit coins, currency, checks and credit cards. Discuss the differences between these types of money. Make available at a learning center a collection of books about money and banking. Have students research the history of coins, the development of paper money, and what types of money exist in different countries. Discuss and report on their findings.

2. Discuss the reasons why we have coins and money in different denominations.

3. Have each student invent the name of a unit of money and design a bill which would be difficult to counterfeit. Display this “money” on a bulletin board.

4. Discuss with students what makes a check money. Draw a huge check on the chalkboard including: date, amount in numerals, amount in words, name of bank, account number, city and state, signature. Have students design a check with these elements, making it attractive, functional, and easy to use. Duplicate one or more of the check designs and have the students practice filling them out and reading the amounts.

5. Ask a worker at a local bank to come to your class to discuss checking and bank cards.

6. **Counting money.**

At a learning center, place a catalog and a supply of play money. One student is the storekeeper, and the other student is the customer. The customer selects the desired item from the catalog and pays for the item with play money. The storekeeper double checks the amount tendered and returns the change, if any.

7. **Money message.**

Distribute copies of the following worksheet.

### MONEY MESSAGE

Can you decode this message?

```
<table>
<thead>
<tr>
<th>31</th>
<th>17</th>
<th>9</th>
<th>100</th>
<th>5</th>
</tr>
</thead>
</table>
+46 +36 x4 -50 x3 |

<table>
<thead>
<tr>
<th>35</th>
<th>6</th>
<th>13</th>
<th>50</th>
<th>96</th>
<th>10</th>
<th>73</th>
<th>12</th>
</tr>
</thead>
</table>
+42 x3 x3 -11 -79 x5 +4 +13 |

100 50 47 17 40 8
-23 -1 -30 +60 +40 +7

9 75 9
x5 -25 x9

<table>
<thead>
<tr>
<th>58</th>
<th>81</th>
<th>8</th>
<th>36</th>
<th>6</th>
<th>27</th>
</tr>
</thead>
</table>
+19 -42 +9 +45 x6 +29 |

<table>
<thead>
<tr>
<th>38</th>
<th>36</th>
<th>100</th>
<th>17</th>
<th>60</th>
</tr>
</thead>
</table>
+39 +9 -61 +64 -45 |

81 23 34
-36 +16 -17

<table>
<thead>
<tr>
<th>8</th>
<th>5</th>
<th>100</th>
<th>77</th>
<th>43</th>
</tr>
</thead>
</table>
x7 x5 -12 -60 -28 |

100 96 8 84 95 56 60
-47 -23 x9 -31 -45 -39 -35

Key:
15=s 25=y 45=a 56=t 77=c
17=e 26=j 49=m 66=q 80=k
18=u 36=i 50=n 67=v 81=d
19=j 39=r 53=0 72=m 85=r
73=f 88=p

Solution: Coins, currency, checks, and credit cards are types of money.
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BINGO! IT'S MONEY!

by William Phillips

William Phillips is currently teaching 6th grade at the Lincoln Elementary School in Euclid, Ohio. He has written award-winning economic education curricula and has lectured on teaching economics to the elementary school-age child throughout Ohio.

Money and Exchange

Today's young people are rapidly increasing their experiences with money and exchange. Each day our complex society allows them to make significant economic decisions in the marketplace. Young people, however, may not realize the power they have as consumers in society. The demand they create and sustain for certain items or activities (such as blue jeans or computer games) is a result of how they spend their money and influence their parents' spending. Students should acquire a working knowledge of money and the part it plays in their world of economic activity. Economic education should demonstrate how exchange occurs, with or without the use of "dollars," and how money adds convenience and efficiency to the exchange process.

Goals

The students will:
1. Demonstrate that money facilitates exchange in the marketplace.
2. Observe that money is a means of comparing the value of products.
3. Visualize the flow of money through a complex economy.
4. Understand that money is a necessary component in the exchange of goods and services in society.

Teaching Activities

1. Classroom Trading. Select five similar items which students have within their desks. (Example: glue, crayons, pencil, notebook, ruler, etc.). Have every student determine the monetary value of each item and place a price tag on each item using masking tape or construction paper tags. Record the high and low values of selected items on the chalkboard. Discuss possible reasons for the different prices. Direct each student to attempt to trade one of their tagged items with a friend. Determine if the prices helped in the exchange process. (Students should see that the price setting activity helped them in clarifying the value they place on each item, but to the extent that their value was not accepted by traders, it does not facilitate exchange.)

2. Products and Prices. Divide the class into six equal production groups. Assign each group one product to design and "manufacture." Examples of products could be pottery bowls, baskets of eggs, chickens, loaves of bread, boots, and fish. These products are to be made of construction paper, properly designed, colored and cut out to represent facsimiles of the actual items. Provide each group with equal shares of paper, glue, scissors, crayons, tape, etc., and instruct them to produce as many copies of their product as possible in ten minutes time. After completion of the production cycle, select one person from each group to be the "trading agent." It is this person's job to trade their group's product with each of the other groups with the object of acquiring one of every manufactured item in the room. The first "agent" to have one of every manufactured item wins for his/her group. After the confusion and futility of the process sets in, stop the trading session and discuss the situation. Questions for discussion:

1. Were there enough products to go around? Did the value of the products change as the trading progressed? (Some groups may have produced less than others, making these items more in demand and, therefore, more valuable.)
2. What is needed for a trade to occur? (Each must have the item the other wants.)
3. What suggestions do you have to facilitate exchange of these products? (Acquire more information regarding the needs of the traders, or use an item all traders will accept in exchange.)

As a follow-up, repeat the production activity, but direct the groups to price their product from $10.00 to $2.00. Before starting the post-production exchange, provide each trading agent with $10.00 of play money (in different dollar amounts.) The students will quickly see that a medium of exchange speeds the process of acquiring products and reduces conflict and confusion.

3. Money Makes The World Go 'Round. (Understanding economic interrelationships through question/answer/discussion.) Bring in a loaf of bread. Hold it up before the class and tell them you paid one dollar for it. Ask them, "Where did I get the dollar?" (From salary as a school teacher). "Where did the money for my salary come from?" (All the citizens/taxpayers in the town). "Where did the taxpayers
money come from?" (Their salaries.) "Who pays them?" (Their employers.) "Where do employers get the money?" (Money they make from their particular business, etc.) If the business is the grocery store, students can see that the purchase of the loaf of bread gives the employer the money to pay employees (citizens of the town) and the cycle is repeated. This demonstrates how money flows through society from one group/individual/company to another.

Now ask, "Where does the loaf of bread come from?" (Store). "Where did the store get it?" (Bakery). "Where did the delivery man get it?" (From the bakery). "Where did the bakery get it?" (They made it). "How did it get to you?" (Used flour, shortening, etc., and baked it in oven). "Where did the flour come from?" (The flour company). "Where did the flour company get it?" (They bought it from the flour mill). "Where did the miller get it?" (Buys machines to grind wheat). "Where does he get the wheat?" (Buys from the farmer who grows it).

Ask students to imagine the difficulty in making all of these transactions without the use of money. Have students make a diagram that shows how the making of one product (as discussed with a loaf of bread) requires the input of various types of labor, products, services, resources, etc. An example could be the student's spending $1.00 for a hamburger at a fast food restaurant. This activity is a demonstration of how our economy functions, the interdependence and interaction of people, and the numerous exchanges of money for goods and services. (Illustration represents a sample diagram with major related goods and services identified.) Provide students with a blank copy of the diagram. Instruct them to draw their product in the center square and challenge them to identify and complete the related products and services involved in the production of one item.

4. "MONEY" Bingo. Provide students with a mimeographed sheet of paper that has been divided into twenty-five square-shaped sections (five across and five down) and the letters M-O-N-E-Y across the top row of squares. (As a measurement activity, students could construct the grid on graph paper.) Call the sheet their "MONEY" Bingo board. Give them an accompanying list of twenty-five goods and services with prices of each. Price items in dollar and half-dollar amounts from $.50 to $5.00 (as: bag of popcorn, $.50; walk neighbor's dog, $2.50; fish hooks, $2.00; bike horn, $3.50; babysit, $3.50) to instruct the students to write one item and its price in each section, varying the amounts horizontally and vertically.

In advance have students prepare twenty-five small round chips or squares made of heavy construction paper the size of the squares on the "MONEY" Bingo board.

Also, on heavy construction paper, prepare a grid of squares for each letter (M-O-N-E-Y) and dollar amount (ranging from $.50-$5.00). Cut out lines and place squares in a basket to use in calling out letter-amounts for the students' boards. (For example: "M-$1.00," "E-$3.50," "O-$2.00"). If "M-$3.00" is called, students can cover with a chip a $3.00 item (as: bag of popcorn, $.50; walk neighbor's dog, $2.50). No more than two squares can be covered on any one call. Tell students they can "spend" the called-out amount of money on any item (or two) in the correct letter column, but they cannot "buy" or cover an item(s) that is over the amount called. Winners are determined in the same manner as regular Bingo. The student who first covers all five items in a horizontal, vertical, or diagonal row shouts "MONEY!" To prove his/her win, the students must total the completed row of purchases and check them with the letter-amounts called. If the students' total is wrong, he or she is out and play continues. Variations of "MONEY" Bingo can be developed depending on the ability level of the students.
rates, and this concern is one of the reasons why money and economics have been discussed more intensely in recent years than in any previous period.

A Medium of Exchange

The third function of money is probably the most important since money facilitates exchange and interaction between people. The alternative to a money system would be a barter system where one good would be swapped directly for another good. Barter requires people to have complementary wants before an exchange occurs. If I produce notebooks and you produce pencils, I have to want your pencils and you have to want my notebooks before a swap will be made. Moreover, in a barter system if you specialize in production of a single good such as notebooks, you would have to spend a considerable amount of time searching for other people to swap with so you could meet all of your wants for food and clothing, or other goods and services. Consequently, a barter system basically forces people to become self-sufficient because the cost of trying to make exchanges is too great.

Money eliminates the exchange costs of barter, lets people specialize, and allows for the complex expansion of economic activity. For example, some people can produce pencils, and some people can produce erasers. The producers can sell their output for money and then use the money to meet their needs for food and clothing. Similarly, the food and clothing workers can take their money and purchase goods and services of their liking. Thus, money permits specialization in the economy, and specialization means people will have more opportunities for work and will have greater freedom of choice.

Money also leads to more efficient production and exchange. When people can specialize and divide their labor, they will produce more. In return for their productive work, people receive money, and the money can again be used to exchange for other goods without the high transactions cost found in a barter system. By allowing people more opportunities and flexibility in exchanging what they value less to obtain what they value more, money and exchange help to create wealth.

Characteristics of a Medium of Exchange

There are several features of a useful medium of exchange that should be noted. First, a medium of exchange should be readily acceptable in payment for goods and services, otherwise people will not be willing to make exchanges. The need for a universal acceptance of money also implies that money should not be easy to counterfeit since people would be more reluctant to accept money when there is a high probability of it being counterfeit. Second, money should be easy to use. It should be divisible so people can use it for large or small purchases; it should have a great value for its weight so people can carry it with them for daily purchases.

Throughout history many different items have been used as money because they served as an efficient medium of exchange. Cigarettes were used in prisoner of war camps as a form of money. Cattle, salt, wheat, and other commodity monies have been used as a medium of exchange in many societies. Precious metals, such as gold and silver, were used as money since ancient times. Almost any item can serve as money, even pencils in an elementary school classroom, as long as it is generally accepted as payment for goods and services. In fact, contrary to what most elementary students may believe, the money in circulation in this country is only backed by the trust and acceptance of people. Our money is not backed by gold and does not need to be to function as a medium of exchange.

The Money Supply

In our society, the supply of money is basically defined as coins, currency, and demand deposits. Demand deposits are checking accounts, and the term developed from the fact that a person deposits money into a checking account at the bank and the money can be withdrawn or transferred upon demand. Most elementary students think of money only as coins or currency, but the largest part of the money supply is checking deposits at commercial banks. Also, children think credit cards are money. However, when you use a credit card, you are obtaining a loan from the credit card bank to make your purchase. Ultimately, the loan has to be repaid and the repayment is done with money in the form of a check. A credit card only serves as a temporary medium of exchange.

Some economists consider money to be one of the most important inventions in all time. Money allows people to be freer, to be more efficient, and to make more profitable exchanges. Since elementary students are using money and making exchanges all the time, they may be unaware of the economic significance of this invention for their lives and for the functioning of the economy. Information in this regard is important to assist young people in becoming knowledgeable, functioning citizens.

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