Money

Before money was invented, people used a system called **bartering**. It’s **swapping** one good for another. But this wasn’t convenient.

First problem is that you don’t know that anyone will want what you’ve got to offer. Second problem is that many goods **don’t hold** their **value**.

Then people realised that **some** goods held their value and were easy to carry around and to trade with. Examples were **metals** like copper, bronze, gold, and other useful goods like salt. These are examples of **commodity money**.

With commodity money, the thing used for buying goods has **inherent value**. **Gold** has inherent value because it is **rare**, beautiful and useful. **Salt** has inherent value because it makes food **tasty**. In other words, **commodity money can store value**.

Using commodity money was more convenient than bartering, **but** it still had **drawbacks**. Commodity money often **lacks liquidity** (it means how easily money can circulate). Not everyone agree on the value of the commodity. Money needs to be a good unit of account. Everyone should know and agree on the **value** of a unit. Then money can be used to measure the value of things.

The solution is to create a kind of money that does not have any real intrinsic value, but that **represents** value. This is **fiat money**. The **coins** and **notes** that we use today are an example of fiat money. They don’t have any inherent value – they are just paper. But everyone agrees that they are **worth** something. And the government **guarantees** their value. This is the reason why **currencies** have value.