Money

Before money was invented, people used a system called **bartering**. It’s **swapping** one good for another. But this wasn’t convenient. You don’t know that anyone will want what you’ve got to offer. Also many goods **don’t hold** their **value**.

People realised that **some** goods held their value and were easy to carry around and to trade with. M**etals** like copper, bronze, gold, and other useful goods like salt are examples of **commodity money**. The thing used for buying has **inherent value**. **Gold** has inherent value because it is **rare**, beautiful and useful. **Salt** has inherent value because it makes food **tasty**. **Commodity money can store value**.

It was more convenient than bartering, **but** it had **problems**. Commodity money **lacks liquidity** (it means how easily money can circulate). Not everyone agree on the value of the commodity money. 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 money that does not have any real intrinsic value, but **represents** value. This is **fiat money**. **Coins** and **notes** are an example of it. Notes are just paper and don’t have any inherent value. But everyone agrees that they are **worth** something. And the government **guarantees** their value. This is the reason why **currencies** have value.