



POWELL CENTER FOR
ECONOMIC LITERACY

Lesson Plan

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What is Money and Why Do We Need It?

Time Required

3 block periods (approximately 90 minutes each)

Grade Level and Subject

Middle School; Social Studies

Keystone Economic Principles

Principle #1 – We ALL make choices.

Principle #2 – There ain't no such thing as a free lunch.

Principle #4 – Economic systems influence choices.

Principle #5 – Incentives produce “predictable” responses.

Voluntary National Content Standards in Economics

Standard #4 – [Role of Incentives](#)

Standard #10 – [Role of Economic Institutions](#)

Standard #11 – [Role of Money](#)

Economic Concepts

Barter – *Trading a good or service directly for another good or service, without using money or credit.*

Exchange - *Trading goods or services for other goods or services or for money.*

Money – *Any generally accepted medium of exchange to buy goods and services.*

Overview

Throughout history, people have sought effective ways of exchanging goods and services with one another. Before the invention of money, people used a barter system. Bartering relied on the direct exchange of goods and services. For example, if a chicken farmer wanted to acquire a knife, he would have to go to the knife-maker and exchange some of his chickens for a knife. If the knife-maker did not want to trade a knife for the chickens, the farmer would have to go through several different exchanges of goods or services (to find something the knife-maker did want) before the transaction could take place. The exchange would be dependent on both parties desiring the items being bartered. Because of the difficulty in matching wants, a system of exchange using money evolved. Money is any accepted substance that serves three purposes or functions: it provides a medium of exchange, a measure of value, and a store of value. Money must also have four characteristics: durability, divisibility, portability, and scarcity. Today we use coins and paper currency as money, but many different items served as money in the past. For example, the citizens of the Yap, a South Pacific island, used stones for money, Native Americans in the New England coastal areas used wampum shells, in ancient China the Chinese used compressed tea leaves, and the East African Masai used currency made of miniature iron spears. In this lesson, students will learn about the three functions of money, describe the four characteristics of money, and create a proposal for a new form of money.

Objectives

- Students explain the three functions of money.
- Students describe the four characteristics of money.
- Students propose, design, and present a new form of money.

Materials and Handouts

- [Barter Activity Role Cards](#)
- [Overhead Transparency of Trade Restrictions](#)
- [Handout 1 Common Characteristic of Money](#)
- [Handout 2 Treasury Money Proposal](#)

Teaching Activity

To generate student interest, hold up a candy bar or another desirable item and ask the students what goods or services they would be willing to trade for it. On the chalkboard or an overhead transparency record student responses. Point out that there is no consensus as to the value that should be attached to the candy bar — each student probably is willing to trade something different for the candy.

Now ask the students what goods and services they would be willing to accept or barter for a scooter, if they were selling scooters. Again, record student answers, noting that there is still not a consensus.

Ask the students to describe a trade they have made, such as one with baseball cards, CDs, lunch, desserts, etc., and to explain why they agreed to trade.

Divide the students into groups of five. Explain that they are going to participate in a **barter activity**. Each student will receive a role card and must fulfill the trade on his or her card according to the trade restrictions. Review the trade restrictions with the students. Next, distribute the role cards to students in each group.

Tell the students they have 10 minutes to trade goods in order to acquire the other goods they need. They are not to trade outside of their individual groups. After trading, poll the students to determine how many were successful in their exchanges.

Ask the students what difficulties they encountered in trying to make the exchanges. Answers may include: the goods some people had to offer were not compatible with the wants of the person who held the goods.

For what reason were the students willing to trade or exchange goods? Answers may include: the transaction helped them to be closer to their goal; both parties expected to benefit from the exchange, etc.

Ask the students if there could have been an easier medium of exchange or an easier way to conduct the exchanges in their trades? Answers may include: reduce trade restrictions, trade with other groups, use money instead of the goods and services, etc.

Explain to the students that we typically use money today, instead of bartering, to make life easier. Money can be any substance that functions as a store of value, a measure of value, and a medium of exchange. It must serve as a store of value in order for consumers to be willing to exchange the money for goods and services. A measure of value allows consumers to assess the value of goods and services using a common denominator.

For example, placing a value of 60 candy bars on a handheld video game player can be confusing for consumers. In contrast, placing a price tag of \$60 on the video game player gives consumers a point of reference.

Finally, money as a medium of exchange helps make trading goods for other goods and services less difficult than bartering. It allows money to be generally accepted as payment for goods and services. In addition, money comes in many different forms, shapes, and sizes.

Historically, many different items have been used as money, such as dog teeth in New Guinea, fishhooks in the Marshall Islands, feathers attached to short sticks at Santa Cruz in the South Seas, compressed cheese in Russia, and tobacco and wampum in Colonial America.

Ask the students to brainstorm characteristics these forms of money have in common. Answers should include scarcity, durability, divisibility, and portability. Explain that money needs to be scarce in order for it to maintain its value. If we were to use leaves as money, our money would have little value because so many leaves are available. Consumers would simply need to collect the leaves from their yard or a nearby park. Money also has to be durable.

Ask the students to describe how they treat their coins and dollar bills. The money has to be

durable to withstand being handled during many exchanges, repeatedly folded, accidentally washed, carried in wallets, pockets, etc. The third characteristic of divisibility is necessary because smaller units of money are needed for some transactions. Imagine purchasing a pack of chewing gum with a hundred dollar bill and not being able to receive change!

Finally, money must be portable. Consumers must be able to easily carry the money to the marketplace or wherever their exchanges with other people will occur. For example, today we are able to carry coins and dollars in our pockets.

Distribute **Handout 1, Common Characteristics of Money**, to each student. Ask the students to individually brainstorm ideas for three new forms of money. They should then complete the chart for the characteristics of historical forms of money as well as their proposed forms. Review answers with the class.

Next, distribute **Handout 2, Treasury Money Proposal**. Inform students that the United States Treasury has just requested their assistance. The Treasury is accepting proposals for the design of a new form of money. Divide students into pairs or small groups. Ask groups to propose, design, and present a new form of money. Each group must justify the use of its form of money over current forms (coins and bills), by listing advantages and disadvantages for its proposal.

Remind the students to include the functions of money (medium of exchange, measure of value, and store of value) as well as the characteristics of money (scarcity, durability, divisibility, and portability) in their proposals.

Encourage the students to use information from the Web sites and supplemental resources listed at the end of the lesson to strengthen their proposals. Allow time for the groups to prepare their presentations.

You may want to invite local bankers, community members, or volunteers to serve as the members of the Treasury committee. The assessment of presentations should focus on the students' understanding of the characteristics and functions of money, as well as their ability to justify their proposals.

After the students have presented their proposals to the committee, review the characteristics and functions of money with them.

Supplemental and Research Resources

www.econsources.com One of the best portals on the Web for general economic information.

Dollars and Cents: Fundamental Facts about U.S. Money Describes types of U.S. paper money, currency features, U.S. coins, circulation of money, and gives tips on spotting counterfeit currency. Brochure available from Federal Reserve Bank of Atlanta at www.fratlanta.org/publica/brochure/fundfac/html/home.html.

Money Museum Virtual walkthrough tour of the Federal Reserve Bank of Richmond Money Museum. Features exhibits on primitive money, coins of early origin, barter in Colonial America, Yap stone, Colonial coin and currency, the United States Mint, early banking systems, the making of paper currency and coins, and much more. Available at -- http://www.richmondfed.org/about_us/visit_us/tours/money_museum/index.cfm.

Once Upon a Dime A comic book and video explanation of the mysteries of money, presented in a story of shipwrecked survivors who discover the financial ABC's one by one. Topics include specialization, barter, coins and currency, checks, banking, central banking, and inflation. Available from Federal Reserve Bank of New York, www.newyorkfed.org. Can be ordered in quantities of 35.

The Money Connection Teaching package that includes a two-part video and five-unit teacher's guide to introduce fourth- through sixth-grade students to the Federal Reserve and basic money and banking concepts. Available through the Federal Reserve Bank of New York at www.newyorkfed.org.

The Story of Money A comic book that explains the purposes of money, the characteristics that items used as money have, how the banking system creates money, and the reasons why the Federal Reserve influences the money supply. Available from the Federal Reserve Bank of New York at www.newyorkfed.org. Teacher's Guide available. Can be ordered in quantities of 35.