# Barter System vs. Currency System: What's the Difference?

**07.09.06**

## **Barter System vs. Currency System: An Overview**

The primary difference between [barter](https://www.investopedia.com/terms/b/barter.asp) and currency systems is that a currency system uses an agreed-upon form of paper or coin money as an exchange system rather than directly trading goods and services through bartering. Both systems have advantages and disadvantages, although [currency](https://www.investopedia.com/terms/c/currency.asp) systems are more widely used in modern economies.

### **KEY TAKEAWAYS**

* Bartering systems were used within the local community, but advances in technology and transportation make it possible for modern society to barter on a global level.
* Bartering has its limitations, which led to the creation of currency systems.
* In early civilizations, common agreed-upon goods, such as animal skins or salt, served as a currency that individuals could exchange for goods and services.

## **Barter System- People trade goods (like crops for example) in exchange for other goods or services**

Since the beginning of known history, humans have directly exchanged goods and services with one another in a trading system called bartering. The history of bartering dates all the way back to 6000 BC. Introduced by Mesopotamia tribes, bartering was adopted by the Phoenicians. The Phoenicians bartered goods to those located in various other cities across oceans. Traditionally, bartering systems were used within the local community, but advances in technology and transportation make it possible for modern society to barter on a global level.

A farmer with eggs and milk can trade them to the local baker for a birthday cake and a loaf of bread. The baker then uses the milk and eggs to bake more bread, which she gives to the appliance repairman as payment for repairing her oven. Bartering makes it easier to negotiate but lacks the flexibility of a currency system.

## **Currency System- Agreed paper money and coins**

Bartering has its limitations. The local blacksmith needs two loaves of bread, but if the baker needs plumbing services instead of new shoes for her horse, the blacksmith must find a plumber who needs new tools to make the trade. Currency systems were developed to eliminate this hassle. In early civilizations, common agreed-upon goods, such as animal skins or salt, served as a currency that individuals could exchange for goods and services.

As currency systems progressed over time, coins and paper notes evolved to support their economies and to encourage trade within the region. Coinage usually had several tiers of coins of different values, made of copper, silver, and gold. Gold coins were the most valuable and were used for large purchases, payment of the military, and backing of state activities. Units of account were often defined as the value of a particular type of gold coin. Silver coins were used for intermediate-sized transactions, and sometimes also defined a unit of account, while coins of copper or silver, or some mixture of them, might be used for everyday transactions.

Most countries now use a monetary currency system, but individuals can still barter or adopt another agreed-upon currency system. These alternatives may be used in addition to or as a replacement for the national monetary system in place.

**Questions:**

1. What is a bartering system?
2. What is an example of bartering?
3. What is a currency system?
4. What is an example of using currency?
5. Which system does the United States (mostly) use?
6. Which system do you think is better? Why?