



Module : English for Specific Purposes

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Unit 01 : Money

TEXT

Money is one of man's greatest inventions, and the fact that the least developed of human societies use money indicates that it is an essential tool of civilization. In the absence of some form of money, exchange may take the form of barter, which is the direct exchange of goods and services for goods and services. Barter will serve man's requirements quite adequately when he provides most of his needs directly, and relies upon market exchanges for very few of the things he wants. As the extent of specialisation increases, the barter system proves very inefficient and frustrating. In the simplest societies each family will provide for its own efforts most of its needs and perhaps some small surpluses. A farmer will exchange any small surplus of food, wool, or hides for the surpluses of other producers. But this system of exchange becomes very cumbersome as economic activities become more specialized. A specialist metal worker must seek out a large number of other specialists in order to obtain, by barter, the variety of goods he needs to satisfy his daily wants. The great disadvantage of barter is the fact that it depends upon a "double coincidence of wants". A hunter who wants to exchange his skins for corn must find, not merely a person who wants skins, but someone who wants skin and has a surplus of corn for disposal. The alternative is to exchange the skins for some other article and then carry out a series of similar exchanges until he finally gets his corn. Time and energy which could be devoted to production is spent on a laborious system of exchange.

Quite early in his history man discovered a much more convenient arrangement, the use of some commodity as a medium of exchange, makes exchange triangular and removes the major difficulty of the barter system. If a commodity is generally acceptable in exchange for goods and services, it is money. A producer now exchanges his goods for money and the money can be exchanged for whatever goods and services he requires.

Functions of Money

1. A Medium of Exchange :

As we have already explained, the use of money as a medium of exchange makes possible a great extenuation of the principle of specialization. In an advanced society the use of money allows us to exchange hours of labour for an amazing variety of

goods and services. We can exchange, for example, two weeks' labour for a holiday abroad, just as easily as we can exchange it for a piece of a furniture, or a year's rent of a television set. Such exchanges are taken for granted, yet they would be inconvenient without the use of money .

2. A Measure of Value :

The first step in the use of money was probably the adoption of some commodity as a unit of account or measure of value. Money, most likely came into use within the barter system as a means whereby the values of different goods could be compared. The direct exchange of goods for goods would raise all sorts of problems, regarding valuation. For example, how many bushels of corn are equal of the value to one sheep, if twenty sheep exchange for three cows and one cow exchanges for ten bushels of corn?" the problem of exchange rates is easily solved when all other commodities are valued in terms of a single commodity which then acts as a standard of value. Money now serves as such a standard, and when all economic goods are given money values (i.e. prices), we know, immediately, the value of one commodity in terms of any other commodity.

3. A Store of Value

Once a commodity becomes universally acceptable in exchange for goods and services, it is possible to store wealth by holding a stock of this commodity. It is a great convenience to hold wealth in the form of money. Consider the problems of holding wealth, in the form of some other commodity, say wheat, it may deteriorate, it is costly to store, in addition its value may fall when it is being stored. The great disadvantage of holding wealth in the form of money has become very apparent in recent years, during periods of inflation its exchange value falls.

4. A Means Of Making Deferred Payments

An important function of money in the modern world, where so much business is conducted on the basis of credit, is to serve as a means of deferred payment, when goods are supplied on credit, the buyer has immediate use of them, but does not have to make an immediate payment. The goods can be paid for three, or perhaps for six months after delivery. In the case of hire purchase contracts, the buyer takes immediate delivery but pays by means of installments spread over one, two, or three years.

❖ Text-Based Activities

1. Answer the following questions based on the text:

- What are the major disadvantages of a barter system?
- How does the use of money as a medium of exchange improve the efficiency of trade compared to barter?

2. Fill in the missing words: granted, convenience, commodity, money, inventions, barter, valuation, exchange.

- Money is one of man's greatest
- In the absence of some form of money, exchange may take the form of.....
- If a is generally acceptable in exchanging for goods and services, it is.....
- Such exchanges are taken for
- Theof goods for goods would raise all sorts of problems regarding
- It is great.....to hold wealth in the form of money.

3. Match the terms on the left with their correct definitions on the right::

- Barter
- Medium of Exchange
- Store of Value
- Deferred Payment
- Measure of Value.

- A. function of money allowing it to be saved and retrieved in the future.
- b. The direct exchange of goods and services for other goods and services.
- c. The use of money to pay for goods and services over time rather than immediately.
- d. The ability to compare the value of different goods using a common metric.
- e. A system that allows goods and services to be traded using money instead of bartering.

4. Fill in the blanks with the correct words from the text::

- Barter is the direct exchange of goods and services for _____.
- The major disadvantage of barter is that it depends on a _____ of wants.

- Money serves as a _____ of value by allowing different goods to be compared in terms of price.
- During inflation, the _____ value of money falls, reducing its effectiveness as a store of wealth.
- A _____ economy allows businesses to conduct transactions on credit, using money as the standard for future payments.