CURRENCY TRANSITION

(WITH REFERENCE TO MODERN ERA)

L.MURUGABOOPATHY

Assistant Professor

Department of Commerce

East West College of Management

ewcmboopathy@gmail.com

Introduction

Currency is an object that is generally accepted as payment for goods and services and repayment of debts in a given socio economic context in a country. Currency is the physical money in the form of coins and paper notes.

Money is in the form of paper and coins usually issued by a government and generally accepted at its face value as a method of payment.

The main function of money is, it acts as a medium of exchange. With the money, we can buy bundle of goods and services

Money emerged due to the difficulties that society faced during Barter system.

Throughout the history, money has many different forms. Most early money system has “commodity money system”, that is based upon the ‘intrinsic value’ of a physical good. Gold, silver, copper and other valuable commodities like cocoa beans, salt, sea shells, tea and tobacco were used as a commodity money.

But the contemporary money system is based on Fiat money. It does not have ‘intrinsic value’ and derives its value by being declared by a government to be legal tender. Though the first money/ paper currency has many benefits, it has the other side also. The cons of paper money leads to invent virtual currency, an unregulated digital currency, which is issued and usually controlled by its developers (example of) such currencies are Ethereum, Litecoin etc.,

Literature Review

1. Benjamin S Orlore, James M Aclusor, John Clammer, Thomas Crump, Stephen Gudeman, David Guillet, Olivia Harris and Henry (1986)titled *“Barter and cash sale on Lake Titicaca: a test of competing approaches*”

This study shows the comparisons with barter and cash sale elsewhere in the Andes.

2. Andrew Beattie (2015) titled “*The history of money: from barter to bank notes”*

According to the Author, Money can be a shell, a metal coin, or a piece of paper with a historic image on it. Money derives its value by being a medium of exchange, a unit of measurement and a storehouse for wealth.

Money allows people for to trade goods and services.

3. Caroline Humphrey(1985) titled *“ Barter and economic disintegration”*The author described the main drawback of Barter system, that harm one party since there is no established measures of weight and volume between the goods to be traded.

4. Alberto Giovanni, Bart Turtel Boom (1991) titled *“Currency substitution”* This paper r reviews the currency substitution in developed and developing countries with empirical facts.

5. Barry Scholnick, Nodain Massoud, Anthony Saunders (2008) titled *“The economics of credit cards, debit cards and ATM’s: A survey and some new evidence ”*This paper provides a critical survey of the large and diffuse literature on credit cards, debit cards and ATM’s.

6. ,Pierre Bachas, Paul Gerter,,Authora Sean Higgins, Enrique serira (2021) titled *“How debit cards enable the poor to save more”*.This study reveals, the user of the card can save up to 2% of their annual Income.

7. Nizar souiden, Riadh Ladhari, Walid Chaddal (2020) titled *“Mobile banking adoption: a systematic review”*This study identifies the most common consequences of adoption of mobile banking.

8. Ujan mukhyopadhyay, Anthony skjellum, oluwakemi; Hamboles, Jon Oakley, Layu (2016) titled *“A brief survey of cryptocurrency system.”*The authors evaluate the strength, weaknesses, and possible threats to each mining strategy

9. Izwan Amsyar, Ethan Christopher, Arusyi Dithi, Amar Najivkhan, Sabda Manlana, (2020) titled “*The challenge of cryptocurrency in the era of the digital revolution”*This study reveals the money laundering crimes often occur under cryptocurrency regime.

The transition from Bartering to Currency

Invention of Currency

No one knows for sure who first invented currency, but historians believe metal objects were first used as money as early as 5,000 BC

The Mesopotamian people created the ‘Shekel’, which is considered as the first known form of currency.

Around 700 BC the ‘Lydians’ became the first westerns to make coins. In between, the commodity which has ‘Intrinsic value’ were used as money by different society.

Before the currency era, the societies were experiencing the “barter system”, wherein one commodity is exchanged for another commodity, i.e., Exchange of one good for another good or goods.

The Barter System

Barter is an act of trading goods or services between parties without use of money.

For Example – A horse may be exchanged for a cow or 3 sheep or 4 goats.

A doctor under a barter system may get a cock or some rice, wheat, fruit for the service rendered by him.

Thus, Barter economy is a moneyless economy, also known as simple economy, where people produce goods either for self-consumption or for exchange with other goods.

Drawback of Barter System

**1. Lack of double coincidence of wants**

It is necessary for a person who wishes to trade his good under barter system, to find someone else, who is not only willing to buy his Good, but also possess that goods which former wanted to exchange.

For Example, suppose a person possess a horse and wants to exchange it for a cow, he has to find out a person who not only possess a cow but also wants a horse.

It is a very time consuming and laborious process.

**2. No common measure of value**

Even if the 2 persons who want each other’s good meet by coincidence, the problem arises as to the proportion in which the 2 goods should be exchanged, since there is no common measure of value under barter system, the rate of exchange will be arbitrarily fixed according to the remark for each other’s goods.

**3. Indivisibility**

Indivisible goods pose a real problem, under barter system. A person may desire a cow and the other a goat and both are willing to trade. The former may demand more than 5 goats for a cow but the other party not willing to give 5 instead he may prefer 4 goats.

This transaction is not complete because the goat a living being isn’t divisible. Such indivisibility makes the barter system inoperative.

**4. Difficulty in storing**

People wanted to trade in cattle, grains and other perishable commodities, often find difficult to store and to prevent their deterioration and loss over the long period.

**5. Difficulty in banking deferred payment**

In Barter economy, it is difficult to make payments in future. It would often invite controversy as to the quality of goods to be repaid in the future.

The inconveniences and drawbacks of barter led to the invention of currency, i.e., common medium of exchange.

Though the Barter system has some inconveniences, in rural India still this system is prevailing. For example, In Assam during pandemic a fair called ‘JONBEEL MELA’ has been organized to exchange the various goods.

Birth of money/Invention of currency

The Mesopotamian created shekel- The first known form of currency.

The standardized stamped currencies in the form of silver and gold coins used by the ‘Lydians’, present Turkey, during 700 BC to pay armies.

Evolution of Money

The evolution of money has passed through following stages

**1. Commodity money**

Precious stones, tobacco, tea, shells, fish hooks and many other commodities served as money depending upon time, place and economic standard of the society.

For example- The hunting society, used stones, bows, arrows as money.

**2. Metallic currency**

With the spread of civilization and trade relations by land and sea, metallic money took the place of commodity money.

During the metallic era, countries started using gold, silver, copper, tin as money and rarely used leather as money in India during 18th Sultan of Delhi, Tughlak at 14th century.

**3.Paper currency**

Since the supply of metals cannot change according to the requirements, the nations switched to paper form of currency.

The first paper currency was created in china during 7th century using paper currency, it has 2 main advantages

It is easy to carry and precious metals can be saved and such saved metals can be used for making other objects like ornaments etc.,

Though paper currencies were used in China during 7th centuries still metal coins were used by rest of the world.

However, Banks in European countries started using bank notes during 17th century for depositors and borrowers, to carry around in place of metal coins.

These banks notes could be used by central bank of a particular country.

Why Central Bank is Required to Issue Currencies

The issue of currency and regulation of its supply slowly went to central bank of the countries.

The purpose of establishment of central banks are

1. Issue of (required) currencies in different denominations from time to time
2. Regulate it’s supply both internal and external to maintain the price and economic stability.

Types of paper currency

**1. Representative money**

The representative paper money is that money which has 100% metallic reserves behind it.

**2. Convertible paper money**

The government does not maintain 100% reserves against the issue of currency. It can be exchanged for full bodied money upon demand of the holder of the money.

**3. In Convertible paper money**

It cannot be exchanged for full bodied money. The monetary authority are not kept any gold or silver reserves against the issues.

The money is issued as the written promise of the government.

**4. Fiat Money**

The fiat money is that money which has face value more than its real value. It is accepted by the citizen on the order of the government. The face value is fixed by the government.

Uses and Importance of Paper Currency

**1. Convenient**

Various denominations of currencies are issued by various governments. So it is very convenient to buy goods and services and also easy to carry from one place to another.

**2. Cheap and economical**

Currency notes are the cheapest media of exchange. For example- paper cost and printing and other expenses of our Indian 2000 Rs notes cost will be Rs 4 approximately.

**3. Homogenous**

Among the coins, there are good and bad coins, but currency notes with same denomination are exactly similar, i.e., similar in size, color, dimension so very suitable medium of exchange.

**4. Stability**

Since paper currencies are issued by the particular monetary authority, the supply of money can be easily controlled by such authority it ensures the stability of price.

**5. Elasticity**

Paper currency is absolutely elastic, it’s quantity can be increased or contracted at the will of the currency authority.

Demerits of paper currencies

Though paper currency has lot of advantages, it has certain drawbacks also.

1. Paper money is of no value outside the country of issue.
2. Paper currency is not full-bodied money and it does not have intrinsic value.
3. Printing too much paper money may lead to high rate of inflation.
4. There is possibility of damage to the paper currency.
5. Counterfeit is one of the major disadvantages.

For example-In India as per RBI’s annual report- 2021-2022 says that, the fake currency notes of all denominations detected as 2,30,971 pieces.

This kind of circulation of fake currency, affect adversely in (our Indian economy) any economic system.

Redesigning the Concept of Money

The influence of internet and the development of mobile and various app payment technologies like phone pay, google pay, our narrow view of money is widened.

Apart from this app, plastic currencies such as debit or credit cards also redesigning the concept of money.

Plastic Money and its Uses

Plastic money refers to the use of plastic cards i.e., Debit/Credit cards in the form of electronic transactions. Various forms of plastic money include Debit cards, Credit cards, Money Access cards, Client cards, Key cards and Cash cards.

The first card was introduced in the year 1967 by Barclays in London. Smart cards were introduced in the late 1970s.

The criteria to get these cards is one should attained the age of 18 and should have a bank account. Certain documents should be submitted to the authority who is issuing such cards.

Types of plastic money

**1. Debit card**

Debit card is the most important type of plastic money. The majority of transactions are made while online shopping and ATM cash withdrawal.

**2. Credit card**

These cards are issued mostly by the banks and non-financial institutions. The users can withdraw money for buying goods or services according to their limit.

**3. Charge card**

Users with charges are required to clear their balance shown in their statement within the given time limit issued to them.

**4. ATM card**

ATM cards can be separately issued by banks or Debit card can also be used as an ATM card.

Apart from these- stored value card, fleet card, gift cards are also used as plastic money for various purposes.

Magnetic Strip card and Smart card

Magnetic cards Introduced late 1970s. It has PINs, to authenticate the transaction. Smart card contains a chip which is an integrated circuit.

Both the cards are widely used because of its safety.

Advantages of plastic money

1. Cards fit into the wallet easily
2. Easy to carry as Easy to carry instead of carrying huge amount of money
3. Provides credit facility
4. Tracking transactions becomes easy
5. Convenience of making payments from home

Disadvantages of plastic money

1. Plastic money is not useful always, since for small transactions require cash.
2. Service charges to be paid while using plastic money
3. Like currency, cards also will get damaged over the period of time.

Since plastic money also has inconvenience while using, the world has moved to next step i.e, money transfer through mobile app.

Money Transfer App or Mobile Wallet

A money transfer app is a platform that allows the payer and payee to transfer the money through digital or online modes.

Google pay, Phone pay, Venmo, PayPal, Square cash, zelle etc, are some examples of money transfer App.

1. A mobile wallet is a type of payment service through which business and individuals can receive and send money via mobile devices
2. A mobile wallet is a way to carry cash in digital format.

Benefits of mobile wallet

1. It saves the time
2. Reduce the fraud
3. Convenient
4. Easily accessible
5. Wide range of users
6. Security in payment

Drawbacks of Mobile wallet

1. It is not fully available worldwide
2. It has some security risk
3. It could encourage reckless spending
4. It requires one’s device to carry.

The redesigning of money is not restricted mobile wallet or plastic money, now it is further extended to crypto currency.

Crypto currency / Virtual currency

Virtual currency is a type of unregulated digital currency which is issued and uncontrolled by the issuers or developers.

In 2014- the European banking authority defined virtual currency as “a digital representation of value that is neither issued by a central bank or a public authority, nor necessarily attached to a fiat currency, but it is accepted by natural or legal persons as a means of payment and can be transformed, stored or traded electronically”.

Features of virtual currency

1. Virtual is a type of unregulated digital currency, that is not issued or controlled by central bank.
2. It can be issued either centralized or decentralized.
3. A decentralized virtual currency does not have a central administrator.
4. The decentralization of virtual currency relies on block-chain method which is cryptography based.

Purpose

The main motto of inventing the cryptocurrency is;

To engage the financial transactions without support of Banks or Governments

Creation of first Cryptocurrency

The first crypto currency was e-cash, was created by David Chaumes during the year 1990.

eCash, B-money, bit gold and Hash cash were created in different times. These are all examples where several attempts have been made to create a viable and acceptable cryptocurrency.

Finally, in the year 2008 Satoshi Nakamoto, invented a viable cryptocurrency called Bitcoin.

Now there are thousands of crypto currencies available in the market amongst Bitcoin is the oldest crypto currency.

How Cryptocurrency works?

It is a decentralized digital currency, can be sent from user to user with network, without the need of Banks.

It not only allows the customer to buy or sell goods and services but also allows the owner of the currencies to trade these currencies through exchanges.

A Crypto currency works as a vast public ledger, called “block-chain”, where all confirmed transactions are included as “blocks”.

As each blocks enters the system, it is broad cast to the peer-to-peer computer network of users are aware of each transaction, which prevents stealing and double spending.

Impact/Influence of crypto currencies on modern economy

1. Though the use of crypto increases in volume, it has little impact on monetary policies. In 2021- crypto market size is USD 1.6 billion approximately.
2. EL Salvador, the first country which allow cryptocurrency as official currency hence bitcoin became official currency.
3. Cryptocurrencies have more influence in the market.
4. Using cryptocurrency is increasing rapidly in education sector, since some universities are accepting crypto currency as fees.
5. Tourism business also accepting the cryptocurrency as, to buy the flight tickets and hotel reservation.
6. Housing and real estate sector started accepting the cryptocurrencies.
7. Some retails like over stock.com, Crate & Barrel, Nordstrom offer the opportunity to the customer to shop with cryptocurrencies.
8. Within the short duration, cryptocurrencies become popular and impact on the world economy can’t be ignored.

During COVID-19 economies are affected badly, but crypto currencies have generated significant attention. Even banks have started buying crypto for the first time.

Since it influences are more in any economy, stopping its expansion is not possible now, on the other hand, they’re regulating these currencies is essential. India is already working on it, the Govt of India is imposing 30% tax on the income generated from cryptocurrencies.

The crypto Industry employs nearly 50,000 people, it may be increased to 16 times by 2030.

The legal status of Cryptocurrency varies from country to country. In India, The Cryptocurrency and Regulation of Official Digital Currency Bill,2021 seeks to prohibit all private cryptocurrencies.

The Finance Minister of India recently announced in the Budget session that the Government of India planning to introduce Digital Rupee through RBI.

Drawbacks of Cryptocurrency

1. Since it uses digital technology- it may fall into the hands of hackers, crypto wallets are not hack-proof.
2. Price volatility tend to lack in inherent value, is a major problem.

**CONCLUSION**

The society has experienced the barter system, then coinage economy, currency period and now experiencing the cryptocurrency economy. Passing from one system to another system is quite common.

Because “Change” is the only constant, which do not change in this world.

During transition period it is quite common, the society will experience some difficulties, but will not stop with this crypto economy, a new system, the society may find if the current system is failure.

So, CHANGE is inevitable.

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