

CURRENCY TRANSITION (WITH REFERENCE TO THE MODERN ERA)

Abstract

Throughout the history, money had many different forms. Early money system has a "commodity money system", which is based upon the "Intrinsic value" of a physical good. Present monetary system is based on Fiat money. It does not have intrinsic value. Paper currency, Fiat money has many advantages on one side; on the other side it has many disadvantages also. The cons of paper currency led to the invention of Virtual currency. Society have experienced the barter system at the earliest stage and now experiencing the Crypto currency economy. Passing from one system to another system is quite common.

Keywords: Barter system, Commodity money, Paper currency, Mettalic money, Representative money, Fiat currency, Paper money, Plastic money, Mobile wallet, Crypto currency, Coinage economy, Legal tender, Intrinsic value, Double Co-incidence of wants.

Author

Murugaboopathy. L
Assistant Professor
Department of Commerce
East West College of Management
Bangalore, India
ewcmboopathy@gmail.com

I. INTRODUCTION

Currency is physical money in the form of coins and paper notes. It 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.

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.

Money always acts as a medium of exchange, when buying and selling goods and services. With currency, we can buy different types of goods and services.

Money emerged due to the difficulties that society faced during the Barter system of Economy. Throughout history, money had many different forms. Most early money system of the money has a “commodity money system”, which 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 commodity money.

But the present monetary system is based on Fiat money. It does not have ‘intrinsic value’. But it has to be accepted as money by the citizens of a country because it is declared by the Government as legal tender. Though the fiat money/ paper currency has many benefits, it has the other side also. The cons of paper money led to the invention of virtual currency, an unregulated digital currency, which is issued and usually controlled by its developers (examples) such currencies are Ethereum, Litecoin, etc.

II. 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 banknotes*” According to 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 to trade goods and services.
3. Caroline Humphrey (1985) titled “*Barter and economic disintegration*” The author described the main drawback of the Barter system, which harms one party since there are 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: 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, Author Sean Higgins, Enrique Seira (2021) titled "*How debit cards enable the poor to save more*". This study reveals that users 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 the adoption of mobile banking.
8. Ujan mukhyopadhyay, Anthony skjellum, oluwakemi; Hamboles, Jon Oakley, Layu (2016) titled "*A brief survey of the 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 the cryptocurrency regime.

III. THE TRANSITION FROM BARTERING TO CURRENCY

1. **Currency invention:** There is no proper evidence that who invented currency first, 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 the first known form of currency. Around 700 BC the 'Lydians' became the first Westerners to make coins. In between, the commodity which has 'Intrinsic value' were used as money by different society. Before the currency era, societies were experiencing the "barter system", wherein one commodity is exchanged for another commodity.
2. **The barter system of economy:** Barter is an act of trading goods or services between parties without the use of money. For Example: A bag of Pearl millet may be exchanged for a bag of Finger millet or a bag of Little millet.

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

So a Barter economy is a simple economy, where no money is used for exchanging goods and services. People produce goods either for self-consumption or for exchange with other goods.

IV. THE DRAWBACK OF THE BARTER SYSTEM

1. **Lack of double coincidence of wants:** It is necessary for a person who wishes to trade his good under the barter system, to find a person, who is willing to buy his Good and also possesses those goods which the former wanted to exchange.

For instance, suppose a person possesses pearl millet and wants to exchange it for Rice, he has to find out a person who not only possesses Rice but also wants Pearl millet. 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 goods meet by coincidence, the problem arises at what proportion in which the 2 goods should be exchanged, since there is no common measure of value under a barter system, the rate of a good will be fixed according to the demand for the goods.
3. **Indivisibility:** It is impossible to divide a good, under a barter system. Such indivisibility is a real problem in a Barter economy.

If a good is not able to divide or a living being like cattle can't divide then the transaction will not be completed.

4. **Difficulty in storing:** People, who wanted to trade in Vegetables, Fruits, Millet, Rice, and other perishable commodities, often find it difficult to store. If it is cattle, people need more space to maintain it.
5. **Difficulty in making deferred payment:** In the Barter economy, it is difficult to make payments in the future. Because the future is uncertain. For example, a particular commodity may have more value now but, the same commodity will have less value, due to more yields in the future. So it is difficult in making deferred payments under the barter system.

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

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

V. ORIGIN OF MONEY/INVENTION OF CURRENCY

The Mesopotamians created the shekel- The first known form of currency. The standardized stamped currencies in the form of silver and gold coins were used by the 'Lydians', present Turkey, during 700 BC to pay armies.

VI. DIFFERENT STAGES OF MONEY

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

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

2. **Metallic money:** 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, and tin as money and rarely used leather as money in India during the 18th Sultan of Delhi, Tughlak in the 14th century.

- 3. Paper currency:** Since the supply of metals cannot change according to the requirements, the nations switched to a 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 the 7th century still metal coins were used by the rest of the world.

However, Banks in European countries started using bank notes during the 17th century for depositors and borrowers, to carry around in place of metal coins. These banknotes could be used by the central bank of a particular country.

VII. WHY APEX BANK OF A COUNTRY IS REQUIRED TO ISSUE CURRENCIES?

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

The purpose of the establishment of central banks are

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

VIII. TYPES OF PAPER CURRENCY

1. **Representative money:** The representative paper money is the money, which has 100% metallic reserves behind it.
2. **Convertible paper currency:** The government does not maintain 100% reserves against the issue of currency. It can be exchanged for full-bodied money upon the demand of the holder of the money.
3. **In convertible paper currency:** It cannot be exchanged for full-bodied money. The monetary authorities are not kept any gold or silver reserves against the issues.
4. The money is issued as a written promise by the government.
5. **Fiat currency:** Fiat money is that money that has face value more than its real value. It is accepted by the citizen on the order of the government. The face value will be fixed by the government.

IX. USES AND IMPORTANCE OF PAPER CURRENCY

1. **It is 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. **It is cheap:** Currency notes are the cheapest media of exchange. For example- paper cost and printing and other expenses of our Indian 2000 Rupee notes cost will be Rupees 4 approximately.
3. **Currencies are homogenous:** Among the coins, there are good and bad coins, but currency notes with the same denomination are exactly similar, i.e., similar in size, color, and dimension so they are very suitable mediums of exchange.
4. **Stability:** Since paper currencies are issued by a particular monetary authority, the supply of money can be easily controlled by such authority it ensuring the stability of price.
5. **Elasticity:** Paper currency is elastic. The issuing authority can increase or decrease the quantity of currency by adopting various techniques.

X. DEMERITS OF PAPER CURRENCIES

Though paper currency has a 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 a high rate of inflation.
4. There is the 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 fake currency notes of all denominations were detected as 2,30,971 pieces.

This kind of circulation of fake currency affects adversely (our Indian economy) economic system.

XI. REDESIGNING THE CONCEPT OF MONEY

With the influence of the 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 redesign the concept of money.

XII. PLASTIC MONEY AND ITS USES

Plastic money is in the form of Debit/Credit cards which are used in electronic transactions. 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 are one should attain

the age of 18 and should have a bank account. Certain documents should be submitted to the authority that is issuing such cards.

XIII. TYPES OF PLASTIC MONEY

- 1. Debit card:** A 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 banks and non-financial institutions. The users can withdraw money for buying goods or services according to their limits.
- 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 cards can also be used as an ATM cards.

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

XIV. MAGNETIC STRIP CARD AND SMART CARD

Magnetic cards were introduced in the late 1970s. It has PINs, to authenticate the transaction. A smart card contains a chip which is an integrated circuit.

Both methods are widely used because of their safety.

1. Advantages of plastic money

- Cards fit into the wallet easily.
- Easy to carry as Easy to carry instead of carrying a huge amount of money.
- Provides credit facility.
- Tracking transactions becomes easy.
- The convenience of making payments from home.

2. Disadvantages of plastic money

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

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

3. Money transfer app or mobile wallet

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

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

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

4. Benefits of mobile wallet

- It saves the time
- Reduce the fraud
- Convenient
- Easily accessible
- Wide range of users
- Security in payment

5. Drawbacks of mobile wallet

- It is not fully available worldwide
- It has some security risk
- It could encourage reckless spending
- It requires one's device to carry.

The redesigning of money is not restricted to mobile wallets or plastic money, now it is further extended to cryptocurrency.

6. Cryptocurrency / 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”.

7. Features of virtual currency

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

Purpose

The main motto of inventing the cryptocurrency is;

To engage the financial transactions without the support of Banks or Governments
Creation of the first Cryptocurrency the first cryptocurrency was e-cash, which was created by David Chaumes in the year 1990.

eCash, B-money, bit gold, and Hash cash was created at 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 cryptocurrencies available in the market among them Bitcoin is the oldest cryptocurrency.

XV. HOW DOES CRYPTOCURRENCY WORK?

It is a decentralized digital currency that can be sent from user to user within the network, without the need for 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 Cryptocurrency works as a vast public ledger, called a “block-chain”, where all confirmed transactions are included as “blocks”.

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

XVI. IMPACT/INFLUENCE OF CRYPTOCURRENCIES ON THE MODERN ECONOMY

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

During COVID-19 economies are affected badly, but cryptocurrencies have generated significant attention. Even banks have started buying crypto for the first time. Since its influences are more in any economy, stopping its expansion is not possible now, on the other hand, regulating these currencies is essential. India is already working on it, and the Govt of India is imposing a 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 plans to introduce Digital Rupee through RBI.

XVII. DRAWBACKS OF CRYPTOCURRENCY

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

XVIII. CONCLUSION

Society has experienced the barter system, then the coinage economy, the 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 does not change in this world. During a transition period, it is quite common, that society will experience some difficulties, but this will not stop with this crypto economy, a new system, the society may find if the current system is a failure. So, CHANGE is inevitable.

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