TRADE - History Form 2 Notes

Definition of Trade

Trade refers to the exchange of goods and services between people or countries. Man must have started trading soon after the evolution of the homo sapien sapiens. Trade was occasioned by the existence of varying environmental and climatic conditions. Trade arises from the basic human needs such as satisfying food requirements.

Methods of Trade

There are two main methods of trade;

1. Barter trade
2. Currency trade.

Barter Trade

This is the exchange of goods for goods. It is one of the earliest forms of trade that was even taking place during the reign of King Solomon of the Bible. Barter trade emerged from the natural needs of the people. For example, among the Kenyan pre-colonial communities such as the Maasai who kept livestock but did not have grains which the neighbouring kikuyu possessed. Barter trade sometimes even took place within the same community where some people had some special talents that others did not possess. E.g ironsmiths. A form of barter trade known as ‘silent trade’ was practiced in some areas where the two involved communities could not speak the same language. For example, it existed between Morocco and Carthage in 400 BC. Barter trade can still be witnessed in the modern society. For example, Kenya exchanges tea and coffee with petroleum, chemicals and machinery from other countries.

Barter trade however has the following disadvantages

a. It may involve bulky goods in the transaction.
b. There may lack double coincidence. It is difficult always to get the goods one wants.
c. Lack of standards of deferred payment; if a good was borrowed, it would be difficult to decide whether the same value was returned later or not.
d. Some goods cannot be sub-divided into smaller units. If one wanted cloth equal to a half a sheep, then he could not divide the sheep into two parts.
e. Lack of store of value for some goods which cannot be stored for a long time since they are perishable. E.g. milk, vegetables.
f. Lack of measures of value; a specific quantity of goods cannot be measured vis-à-vis other goods.

Advantages of barter system

a. Poor countries without adequate foreign currencies benefit from it by being able to exchange goods they have for what they do not have.
b. It benefits where money is non-existent.
c. It avoids wastage as demand and supply tend to equate.
d. It promotes interaction hence good relationship, peace and stability especially among traditional African societies.

Currency Trade

This is a type of trade that involves the use of money. Money is an item that is mutually recognized as a medium of exchange or a measure of value. In the pre-colonial times items like Gold dust, cloth, copper rods, and iron and cowrie shells were used as a form of currency.

Advantages of the use of money in trade

a. Money is a medium of exchange- it is needed to obtain goods or services.
b. Money as a measure of value enables units of goods to be bought. A specific quantity of goods can be measured Vis -a- Vis other goods.
c. Money is a standard of deferred (future) payments which allows borrowing and lending to take place.
d. It is a store of value- one is able to defer satisfaction of a want to future times or make provision for one's want at a future date.
e. It is a means through which immovable property can be transferred. For example when one sells a house in one city to go and dwell in another.
f. Money as a unit of account is used as a calculating medium and assigning prices of goods and services.
g. Money is easily divisible into smaller units. For example, if a product is valued at a lower price, the buyer only pays the agreed cost.
h. The qualities of money and its functions overcome the difficulties of barter.

Money however becomes valuable only when those using it have confidence that it will continue to retain its value during the period it is in possession. Technology today has made the use of currency easier. There is the use of Visa Card and Mobile money services like Mpesa and Airtel Money to carry out transactions.

Difference between Barter Trade and Currency Trade

a. In barter trade goods are exchanged for goods/in currency trade, there is use of money as a measure of value.
b. In barter trade depends on the existence of a double coincidence of needs but in currency method one meets his needs by the use of money.
c. Items used for barter trade are bulky (some) and inconvenient to handle - and others perishable. Money is not bulky.

Local Trade

This refers to the exchange of goods between people within the same geographical area such as a village or town.