Principles of Business

What is a business?

A business exists anywhere there are people engaged in trade, with a common view of making a profit.

Early Economies

1) **Direct Production** – (meaning, man had to find their own food.) Man had to produce for himself and his family.
2) **Surplus Production** – excess goods

Barter

Barter is the exchange of goods and services for other goods and services without the use of money.

Advantages of the Barter System

1) It was an opportunity for people to obtain different goods.
2) Barter helps avoid wastage of goods since we had to have enough of a good in order to exchange
3) No financial burden - tax free
4) Barter taught people to be independent
5) No bills

Disadvantages of the Barter System

1) Double coincidence of where you must have what I want, and I must have what you want in order to exchange/trade
2) No unit of measure
3) Lack of storage
4) Transportation was a problem
5) No record to show that trade has taken place

Development of the Money Economy

Money does not necessarily mean coins.

In primitive societies, and even today, money is a standard item that is generally acceptable as a means of exchange. Outside of the barter system, there was the use of shells and beads which were durable but easily reproduced and not a good medium of exchange. Other tribes used agricultural produce and animal skins; but again, they were easily recognizable, too large and too bulky.

The Egyptians were among the first to use metal rings for trading the Lydians introduced coins to the western world. The value of coins depended on the quantity of gold or silver it contained. The Chinese introduced the paper currencies. The British, Spanish and Dutch spread the currencies all over the world, and these currencies remained until countries gained independence from their colonial masters.

The Rise and Fall of Gold

The rise of gold seemed dominant years before World War I. Gold and silver were the Queen's currency up to World War I. Gold was the medium of exchange for international trade and debts, and silver was commonly used in physical coinage. A gold standard was agreed between European countries and the USA, so that the value of a country's currency was linked to the market value of gold. Countries therefore used gold as their currency reserve.

The more gold a country has, the richer it seemed to be. After the gold rush in the USA and Australia between 1850 and 1875, too much gold became available and the value declined and became unstable.
In addition, gold coins were easily adulterated by robbing the edges off and using the gold dust to make other coins, which thus devalued the coinage and currency. Britain and the USA had huge quantities of gold but the depression (World Wars) and widespread natural disasters as well as financial disasters in the 1920s and 1930s exhausted the gold reserves of many smaller countries who were lead by France and so they pulled out of the gold standard. In the absence of gold, the British pound (Sterling), became the world's leading currency, up until World War II. It was taken

over by the US dollar. Caribbean countries now have a floating exchange rate. (determined by demand and supply)

World War I – July 28, 1914 – November 11, 1918
World War II – September 1, 1939 – September 2, 1945