

Economics of History Activity

The logo for 'networks' features the word 'networks' in a bold, lowercase sans-serif font. A stylized graphic of intersecting lines forms a starburst or network pattern behind the letter 'o'.

Civilizations of East Asia

Chinese Economic Advancements

For thousands of years, people lived in societies that did not use money but a system of barter. Imagine that you raise sheep for a living in such a society. Your neighbor is a shoemaker. You need a new pair of shoes, but your neighbor does not want any sheep products. You will have to trade your sheep products for another good that your neighbor wants so that you can get new shoes. The necessary exchanges might be complicated. The solution to this sort of problem was the invention of money.

Economics Terms to Know

currency paper component of the money supply; in less developed societies, currency can be in various forms, such as shells, livestock, or stone carvings

The Chinese were not the first people to use money. Throughout history, a wide variety of items such as seashells, beads, livestock, fur, and tobacco have been used for money. Most early cultures also used precious metals as money. Coins were first made in about 700 B.C. and were useful because they were durable and intrinsically valuable because of their metal content.

However, coins are not as easy to carry as paper money, or currency. The Chinese were the first to utilize this kind of currency, with the first paper banknotes appearing in 806 A.D., during the Tang dynasty (618–907 A.D.). This was about a thousand years after they began to use leather money (in 118 B.C.), in the form of one-foot-square pieces of white deerskin decorated with vivid borders. Paper money was easier to produce than coins or leather money, and was lighter than both.

Paper banknotes were used in China from the ninth through the fifteenth centuries. During this time, so much paper money was printed in China that its value quickly depreciated and inflation soared. The use of paper money then disappeared for several hundred years beginning in 1455. It was not until about 300 years later that paper money came into common use worldwide.

Applying Economics to History

1. **Explaining** Why did the use of paper money develop?

2. **Analyzing** What advantages and disadvantages did the use of paper money provide?

3. **Drawing Conclusions** Why is the use of paper money a marker of a more advanced economy?
