

WALLYWORTH'S

(Medium of Exchange)



Wally soon had his hands full working as a full time barterer and a walnut farmer! Since he found trade more exciting, he decided to let his cousin Walter take over the family walnut grove business, and dedicated all his time to his new job as a merchant.

Herb built Wally an extremely large hut with extra-secure locks on the doors, where he kept all the hundreds of items he collected. Whenever the Caplanders wanted anything, they could come trade their walnuts for goods at his "Wallyworth's" warehouse, located squarely in the

middle of the village.

The villagers saved a lot of time by doing most of their trading with Wally, who was affectionately known as the "middle man." It had been wasteful for Shirley, when she needed corn, to have to carry shirts over to Marvin and Bianca's distant field to barter. With Wally working in-between them, Shirley would have more time to make shirts and Marvin and Bianca would have more time to spend farming.

Of course, Wally did get compensation for his work. When Marvin and Bianca brought in a bushel of corn, he would give them three buckets of walnuts in return. Then, when someone wanted that bushel of corn, Wally asked them for four buckets of walnuts. The increase in walnuts collected by Wally in the transaction was what he called profit.

So things were going well overall, but there were a few concerns. One of the villagers named Shannon asked Wally for a favor.

"My hut isn't big enough for all these nuts," she complained. "And I don't like having to watch over my door every day to make sure people don't steal them. Since Wallyworth's is so large and secure, would you mind holding onto my buckets? I'll pay you some walnuts if you do it!"

Ever-mindful to new business proposals that could raise his profits, Wally agreed. He started charging a bucket of walnuts for every twenty that he kept safe. Since many villagers did all their trading with Wally, they agreed to deposit their walnuts with him. He kept track of how many buckets each villager had in his warehouse on a piece of paper. Most sales and purchases could be done just by updating the paper...without ever touching a bucket!

Everyone took notice of the ease with which transactions could be performed at Wallyworths. They were especially interested because ever since using walnuts had become standard, a high percentage of the villagers were having severe back pain. Carrying around several heavy buckets of walnuts wherever anyone wanted to buy something was cumbersome!

Still, not everyone did their all their trading with Wally. They were used to exchanging buckets of walnuts with each other, whenever it was more convenient or they felt Wally's prices were too high. So they held out from joining his safe-deposit system.

Never wanting to lose a potential customer, Wally tried to think of a solution. That night, he began cutting many small pieces of wood into squares, burning a unique letter W on them with a metal brand. He announced his

plan the next day at a town meeting.

"I know some of you have been holding out on joining my safe-deposit system, because you want to trade with each other," said Wally. "So I came up with a solution."

He pulled out one of the Wallywoods from a bag.

"This specially marked piece of wood represents one bucket of walnuts," he declared. "Anyone who participates in my safe-deposit system can ask for one of these wood pieces back instead of a bucket. It's an IOU, and it can be exchanged at any time for a bucket of walnuts. But you can trade it among yourselves just like it were an actual bucket of walnuts, only it's much easier to carry."

This was great news. Since Wally was a well-known figure whom the villagers could all trust, they began carrying their buckets to Wallyworth's to trade them in. The wood pieces became a monetary system, in which something relatively worthless on its own was used to represent something else. Walnuts were still the standard of value, but these special wood pieces had become a medium of exchange.

Almost everyone in the valley accepted this new system. Only Smidley, who had never trusted Wally, still bartered his mushrooms.

YOU WANT IT? I GOT IT!

(Supply and Demand)



With the new monetary system established, and with a standard of value, there was no need for barter anymore. People did not have to worry about trying to trade ducks and shoes and hut repairs for each other. They simply had to worry about trading wood pieces for goods, at a set price.

Wally based his prices on a system that he discovered almost by accident. One sweltering summer day, Cathy the coatmaker walked into Wallyworth's with a large supply of coats. Wally wiped the sweat from his brow

and loosened the collar of his green polyester suit (the specialty of Taylor the Tacky Tailor).

"Wally, I have come to sell you my supply of fur coats," said Cathy. "I need ten wood pieces each for them."

He gave her a quizzical look. "Are you kidding? Who would buy coats on a day like today?"

"Oh please, Wally!" begged Cathy, "My husband left me with my fourteen children, who are all sick and starving at home! I need wood pieces now!"

Wally was sympathetic, but knew he could not sell the coats in this weather. Then it clicked: if he bought the coats at a reduced price when demand is low, he could store them until winter when demand was high. Then he could sell them at a much higher price, creating more profit!

"I'll tell you what, I'll give you five wood pieces per coat," offered Wally.

Cathy was offended and disappointed at his counter offer.

"I've worked hard on these coats!" she said angrily. "I could easily sell them for fifteen wood pieces this winter!"

"But didn't you need the money now?" said Wally suspiciously. "What about your children?"

Cathy grumbled and took the money, and Wally put the coats in storage.

This supply and demand relationship also held true in his transactions with Marvin and Bianca. For example, if the tomato season was bad, Wally would be willing to give many wood pieces to Marvin and Bianca for only a few of the tomatoes. However, if the tomato crop was larger, Wally would give them fewer wood pieces for the same number of tomatoes.

From this point on, this supply and demand relationship was what determined the prices in Wallyworth's. If there was not a very high demand for a particular product, prices dropped and the producer risked losses. On the other hand, if there was a great demand for a product that was available in only limited quantities, prices would climb and profits would rise. The villagers also discovered that this law of supply and demand affected their wages as well as their purchase costs.

Due to the high demand for many products in the village, numerous employers hired some of the younger villagers to work in their shops and factories. Some of the workers performed difficult tasks such as stitching shirts or

painting pottery. Others had jobs that were extremely dangerous, such as digging coal in deep mines in the side of the mountain. Some had jobs that required no skill at all, such as carrying logs from the forest or digging holes for fence posts.

In general, villagers were paid according to the difficulty or danger of their jobs. Those jobs that were easy could be performed by almost anyone. Since the supply of such unskilled workers was large, it was not necessary to pay much to get them. On the other hand, a much smaller supply of skilled workers existed who could perform the difficult task, so the value of their services was considerably higher. Since there were not that many people who were willing to work in the coal mines, those who did were well paid. The law of supply and demand determined the pay workers would receive, just as it determined the value of goods on the market.