

But Why: A Podcast for Curious Kids

Why Is Money So Important?

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[00:00:20] This is But Why, A Podcast for Curious Kids produced at Vermont Public Radio. I'm Jane Lindholm. In each episode we take questions from kids just like you.

[00:00:31] Maybe you've even sent one in and we find people who know how to help you find an answer.

[00:00:37] Today we're going to talk about a very complicated topic money and why it's important. The first question is a doozy.

[00:01:04] Luca: Hi, my name's Luca, and I live in Ashland, Oregon. I'm nine and my question is who invented money?

[00:01:14] Jane: Good question Luca, and a really tough one because it kind of depends on what you mean by money. Let's start by going back in time, way back in time. Imagine two cavemen hanging out in the middle of a summer morning. And one of them is feeling hungry.

[00:01:34]

First Caveman: I am really hungry. I think there's a mastodon over there that would feed my family for a long time.

Second Caveman: What's a mastodon again?

First Caveman: That thing over there, looks like an elephant.

Jane: Which don't exist yet but go on.

First Caveman: But a lot hairier.

Second Caveman: Oh right.

First Caveman: Anyway any chance you could help me chase down the mastodon and spirit and then drag it back to my home?

Second Caveman: Wow I guess I'm pretty free right now. But what do I get out of it. I have plenty of food at home so I don't really need any Mastodon meat.

First Caveman: I see you don't have an ax. How about I give you my extra Ark's?

Second Caveman: Deal.

First Caveman: Deal.

Jane: Thanks guys. OK. So you didn't hear anything about money there did you? No. Because money didn't really exist in the earliest days of humankind but there was this thing called bartering. You probably already know about bartering because it still happens all the time. It's basically trading. You'll give me something I want in exchange for me giving you something you want maybe you barter for things at school. I'll give you my grapes if you give me your crackers. And it's not always a one for one trade. Like maybe you really want my grapes. So I say you can have my grapes but only if I can have your crackers and your cheese. Then you have to decide if you think that's worth it. So in early human existence we did a lot of bartering. But it can get pretty complicated pretty quickly if you have something I want but I don't want anything you're offering because I really need something else and you don't have it. How do we work it out so we all get what we need? We need something else. A pile of some things that we can use to trade back and forth and we'll agree that each one has a certain value. So we each take a pile of shells or stones and we trade those back and forth and then use those stones as money to trade for something we really need.

Store Bell Ring

First Woman: Hey can I trouble you for some extra muslin I need to make a new dress. I can give you some of the potatoes I grew this summer.

Second Woman: I do have muslin but I don't want any potatoes. I also grew potatoes this year.

First Woman: OK well I have these shells that we've all agreed to trade for goods. So if you give me three yards of muslin so I can make a dress. I'll give you 20 shells.

Second Woman: This is really lovely muslin. I think it's worth 30 shells.

First Woman: I only have 25.

Second Woman: OK for you. I'll take 25.

First Woman: Thank you so much.

Second Woman: And now I can buy the flour and cheese and milk that I need. Wonderful.

First Woman: Wonderful.

[00:04:29] Jane: Those earliest forms of money were things like shells or rocks then pieces of clay with symbols or faces pressed into them like stamps. Eventually these objects became more formalized and they turned into coins and then paper dollar bills like the ones we use today these objects don't have much inherent value. That means they're not valuable on their own but people agreed that each one represented a certain value or certain amount. So a five dollar bill and a twenty dollar bill are made out of the same paper. One is not more valuable than the other based on its weight or its size or its material. But we have all agreed that the one with the twenty is worth more. So you can buy more things with the twenty dollar bill than with the five dollar bill once everyone agrees that they're going to use these same objects as a symbol of value. Then you can trade them and start a system of payment. So the bottom line, Luca is we don't know exactly who invented money but that's kind of the how money got invented.

Tilley: Hi, my name is Tilley and I am five years old.[00:05:48] I live in Massachusetts and my question is: Why do you need money? Why can't everything just be free?

[00:05:56] Jane: To help answer your question, Tilley, we reached out to three people who do another podcast all about money. It's actually a podcast for adults and in fact it's even called the Money Podcast, The Slate Money podcast. Felix Salmon is joined on that podcast by Anna Szymanski, Jordan Weissman. They took turns answering your money questions. So here's Felix Salmon to talk to you, Tilley about why we need money.

[00:06:22] Felix: Tilley, I feel you. You're right. Everything should be free. Life would be much better if everything was free and there are wonderful dreams where everything is free and if you watched Star Trek on the television when you're older you will live in this wonderful world where everything is free. But unfortunately I have some bad news which is that we don't live in that world. Because in that world what you need to do is create everything you want out of nothing it's the only way that everyone can get what they want. So here's how I think about it if everyone in your class wants an apple it's probably possible to go out and find a pile of apples and give everyone in your class an apple and then everyone gets an apple and everyone's happy. But what happens if there's one castle and you want that castle then you get to live in that castle and then your friend in your class also wants a castle. But there's only one castle and you already have that castle. So then how do you work out who gets to live in that castle? There are lots of different ways you can work that out. And sometimes you can just have a fight with swords or you can toss a coin or you can do any number of different things. The way that we work it out in this society which is not necessarily the best way but it is it is a way which works is through this thing called money. And basically whoever pays the most money for the castle gets to live in the castle. So the way we work it out in our society is through money. And whoever pays the most money for the castle gets to live in the castle and no one else gets to live in the castle. And that's a bit sad and I'm sorry that it's that way but we haven't found a better way yet.

[00:08:21] Iago: Hi my name is Iago. I'm 7 years old and I live in Maryland. My question is why is money so important?

[00:08:30] Jane: Here's Anna Szymanski from Slate money with some thoughts on that.

[00:08:33] Anna: Good question. Besides what we were just talking about in terms of the idea of money being something that our society uses so that certain people can have certain things that they can pay for and then others unfortunately can't have those because they can't pay for them. Money has also been very important in terms of allowing our society to develop because if you were just with your friends and the only way that you could get a comic book that you wanted was by trading it for some you know candy that you had. But then who knows if later that then they're going to want more candy for it. Or And then what if they don't want candy what have you at the comic book. But they don't want the candy? But all you have is candy. So it would make a lot more sense if you had something that you know they want because they can use it to buy whatever it is they want and so that's one of the reasons that money is also really important because it allows everyone to have a means that they can get what they want in a more efficient way.'

[00:09:34] Jane: Think back to those two women we heard earlier. One of them needed some cloth to make a dress and she had potatoes to give away. But the shopkeeper didn't

want potatoes so they had to figure out another way to make an exchange. This is all really complicated. So let's get another person's thoughts on the importance of money too. Right near where we work here at But Why, there's a place called the New England Federal Credit Union. They like to help educate people about money and how to earn it and use it and save it. So we paid a visit and talked to Amanda Seaholzer.

Amanda: Money is an extremely important thing as you get older because it provides security for your family. It pays for things like your electricity to be on in your house. It pays for things like groceries when you go to the grocery store. Money is something that everybody needs to have. There's not set dollar amounts that you need to have in your job when you make money but you do need to have money to pay for all the little things that we don't realize cost money, So when you get a new pair of sneakers or when you get a new book order from school that all costs money and your parents have to pay for that. So all the things that we need in life and some of the things we want in life we definitely have to plan ahead and have money for. When you want a new bike or something super cool or a new iPad those things cost more money so if you would like to save money into a bank account you can put it in a savings account and you earn a little bit of money for putting it in there. And once you add enough to purchase it then you can take it out and go make your purchase. So that's why money is really important is it helps us meet our goals. It helps us meet our daily needs and things like that.

[00:11:31] Jane: Amanda was talking about why money is important. And she also talked about jobs and money. Here's another question about how those two things are connected.

[00:11:41] Rebecca: Hi I'm Rebecca. I live in Plano, Texas. I'm four years old.

[00:11:47] Jane: What's your question?

Rebecca: How do you make money?

Jane: We checked with Rebecca's mom and she told us that Rebecca wants to know how you earn money so here's Slate money's Jordan Weissman with some thoughts:

[00:12:00] Jordan: OK Rebecca, I think you're old enough to to learn about this, face this grim reality which is you have to do stuff for other people who are not yourself for the most part to earn money. Your parents when they go to work in the morning they are doing something for a company which then gives them a paycheck gives them money at the end of the day for it. Maybe you don't work for somebody else. Maybe you just do maybe you are your own boss maybe you start your own company but you're probably selling something to someone else (laugh)who is going to give it to you. But you have to do stuff for people who are not yourself to do stuff for other people and then they have to decide that is worth you know giving you a giving you money at the end of the day. And it is you know that's going to be a good part of your life. I'm sorry to say.

Jane: In some jobs people make a lot of money. And in other jobs they don't make much money at all. And it's not always fair how those things are sorted out. As I said earlier money is a very very complicated subject and because it's so important in people's lives and families worrying about money can make people sad or scared or sometimes happy. But when Jordan joked that it's going to be a good part of your life he means that adults

have to think about money a lot because we need money for paying for food and clothes and college and fun stuff like vacations. You might want to talk to the adults in your life about why some people have lots of money and some people don't. See what they have to say. But now if money is so important and you can earn money by doing work well here's another question.

[00:13:46] Azaylia: My name Azaylia. I live in Switzerland. I am 7 years old and I want to know why you kids don't go to work?

[00:13:58] Jane: You know in some places kids do go to work especially if their families need money. Kids are sometimes an important part of a family's income. And historically many many kids did have to go to jobs. But in a lot of countries around the world there are now laws that make sure that kids don't work too many hours. Part of that is so you can do things like play and go to school and grow up healthy and safe. Here's Slate money's Felix Salmon again.

[00:14:26] Felix: Azaylia: I can tell you. You think you're not going to work. But in fact you are. You're going to school and school is an apprenticeship. School is the way that you learn how to work. School is what we put you through so that you will be able to work when you're a grownup. So you don't have the ability to make lots of money right now when you're seven and so we make you spend all day in school so that we teach you things and when you leave school you will be able to make lots of money and look after us in our old days.

[00:15:09] Jane: Now there are also kids who have jobs within their family and sometimes get something called an allowance in exchange for doing chores or helpful things around the home. We're talking about money today and in just a moment we will look at how things like coins are made and why dimes are so small.

[00:16:03] Jane: You're listening to but why a podcast for curious kids. And today we're answering questions about money. Let's go back to the credit union for a minute and Now a bank or a credit union is a place that will store your money for you or let you borrow money for a big purchase.

[00:16:22] Amanda: When your parents go to buy a car oftentimes you don't have that much cash sitting around so they have to get a loan from a financial institution. So when you borrow money in a loan so that's borrowing money from a financial institution. When you borrow money they have to pay it back and in the bank or credit union is doing you a favor by offering you that money to use to buy the car. So because they let you do that you have to pay them a little bit of interest is what it's called. So you have to pay them interest over the time that you're borrowing the money. Also when you save money into a savings account banks and credit unions give you like a reward for that. So when you save money and you accumulate money every month they give you a little bit of cash back into your account for saving money which is interest in your savings account. So it's a great idea to save money because you make money just for putting money in the bank.

[00:17:27] Jane: You know how earlier in this episode we were talking about how money started as shells and stones and then little clay pieces with stamps and coins and then

paper bills these days a lot of people buy things using a little piece of rectangular plastic and they don't always even keep coins or bills in their pockets. That little piece of plastic is usually either a credit card or a debit card.

[00:17:51] Amanda: So the debit card allows you to go to any store and make a purchase instead of bringing physical dollars with you and it electronically through the computer comes out of your bank account. So if I go to the grocery store and spend 20 dollars and I use my card the 20 dollars comes right out of my checking account a debit card is different than a credit card because a credit card is borrowed money from the bank. So a debit card when you use it always comes out of a bank account so you have to have the cash in your bank account in order to use it whereas a credit card when you make a purchase it comes out of the bank's money so they lend you this amount of money. Let's say it's 500 dollars. If you spend money on it then you get a bill in the mail to pay the bank back. So you essentially are borrowing the money from them temporarily and then when the bill comes you have to pay it.

Jane: One more thing while we're talking about bank accounts and debit cards. Have you ever been with an adult who sticks a debit card into a machine that sounds like that and then the machine spits out dollar bills? That's called an ATM machine but it's not giving away free money. It's giving money that's already in your account and the information stored on your debit card tells the machine who you are and how much money you have. And then you tell it how much money you'd like to take out or put in. And then the machine either gives you those dollar bills or takes the money from you and puts it in your account. Amanda says it is so important to save money. That's how you pay for big things in life. And it's something that kids can think about too.

[00:19:40] Amanda: Something to get in a good habit of doing is when you get a gift of money or when you are working and you are earning money or even today when your parents are spending their money you have to make daily choices on what's most important. Because I'm sure a lot of us would love to go out to eat all the time and would love to buy all the toys that we want and all the cool stuff that we want. But there has to be a really good balance of making your needs met meeting your needs first and then you can have some fun with your money. But you have to plan it in advance so that you make choices that make you happy and meet your goals longer term and right now.

[00:20:25] Jane: We have one more aspect of money we want to tackle today and it's about those actual physical coins we sometimes use to purchase things. Here's Sam who's 9 and lives in Philadelphia.

Sam: Why are dimes so small?

Annabelle: My name is Annabelle and I'm four years old and I live in Florida. And my question is Why are dimes smaller than pennies if they are worth more?

Jane: Dimes are the smallest coins in U.S. money. They are worth ten cents. They've been around since the 1790's. And when they were first made they were made of silver and copper. The people making dimes had to make sure the metal used to make the coins wasn't worth more than the value of the dime itself. The ten cents you could use it for at the store. Silver was very valuable, so the dimes were made very small. By the way dimes don't actually contain silver anymore. Since 1965, they've been made with copper and nickel two other types of metal.

[00:21:30] Lyla : My name is Lyla and I'm eight years old. I live in Burlington, Vermont. And my question is: how was the penny invented?

[00:21:40] Jane: How was the penny invented? Well dimes are the smallest U.S. coin by size but not by value. Pennies or the coins with the least value in the United States. Each penny is worth one cent so it takes one hundred pennies to make one U.S. dollar. Pennies are a little bit different from other U.S. coins. For one thing they're brown. That's because they were originally made from copper. Now they're made of zinc and covered with copper. Pennies were first introduced in the 1790's when the United States established our system of money. But they've changed a lot over the years. By the way some other countries used the word penny for their smallest coin too. And some countries like Canada have decided that they're not going to make penny coins anymore because they cost more to make than they're worth. And some people say they're not very useful anymore. What can you buy for a penny? Not much. Now as you can see money is an important topic and an interesting one and we have barely scratched the surface in today's episode. So talk to the adults in your life about anything that confuses you and ask them to help you learn about money. Financial education is important because when you're an adult you need to know how to make smart choices about spending, saving and investing.

[00:23:01] If you have a question for us about anything, have an adult record you using a smartphone. Tell us your first name how old you are and where you live. And what you want to know about then send your question to: Questions at But why kids dot org. Thanks today to Amanda Seaholzer at the New England Federal Credit Union and to the host of Slate Money podcast, Felix Salmon and Anna Szymanski and Jordan Weissman Special snaps as well to Ric Cengeri and Mitch Wertlieb, Annaelise Shalmandine and Victoria St. John for helping act out some early financial transactions. But Why is produced by Melody Bodette and me, Jane Lindholm, at Vermont Public Radio. Our theme music is by Luke Reynolds. We'll be back in two weeks. Until then. Stay curious.