

# Lesson 06: Direct Exchange and Barter Prices

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## 1. Lesson 06: Direct Exchange and Barter Prices

## 4. Chapter: Lesson 06: Direct Exchange and Barter Prices

### 1. Lesson 06: Direct Exchange and Barter Prices Questions

#### 4.1.1. How is it possible for both parties to benefit from the same exchange?

Author: Robert Murphy

How is it possible for both parties to benefit from the same exchange?

- Economic value is subjective.

Check the answer of this question online at QuizOver.com:

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#### 4.1.2. If a producer good only provides benefits indirectly, can a producer...

Author: Robert Murphy

If a producer good only provides benefits indirectly, can a producer good be obtained via direct exchange?

- Yes. The text discusses the example of a farmer trading away bacon for tomato seeds, which are presumably a producer good (intended for planting to yield tomatoes). So long as both farmers intend on using the obtained goods themselves (rather than trading them away yet again), the exchange is a direct one. (The distinction between direct and indirect exchange will be much clearer after you work through Lesson 7.)

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#### 4.1.3. Suppose the economy has only four goods: apples, oranges, bananas, ...

Author: Robert Murphy

Suppose the economy has only four goods: apples, oranges, bananas, and grapes.

In barter, how many independent price ratios would exist? (E.g., the apple:orange ratio would not be independent of the orange:apple ratio.)

- There are  $4 \times 3 = 12$  different pairs of goods, but only 6 if the order is unimportant. So in a barter economy with four goods, traders would need to keep track of 6 different price ratios. Specifically, they are: apples:oranges, apples:bananas, apples:grapes, oranges:bananas, oranges:grapes, and bananas:grapes. (If you know that 1 apple trades for 2 bananas, then you automatically know that 1 banana trades for half an apple. That's why you only need to keep track of 6 total exchange ratios in this small economy.)

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#### 4.1.4. If Alice likes Snickers more than Milky Ways, does that mean she wo...

Author: Robert Murphy

If Alice likes Snickers more than Milky Ways, does that mean she would always choose a Snickers over a Milky Way, if offered a choice between one or the other?

- No, because she might start out with more Snickers than Milky Ways. For example, if Alice starts out with (2 Snickers and 0 Milky Ways), she would rather obtain one additional Milky Way than one additional Snickers. The former gift would raise her to the 14th spot on her preference ranking, whereas the latter would raise her only to the 19th. (She would start at the 21st spot.) Note that in a sense, it's inaccurate to say "Alice likes Snickers more than Milky Ways" for this very reason, but of course in everyday language we speak like this all the time.

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#### 4.1.5. In what sense did Christy's arrival "knock out" some of the possibil...

Author: Robert Murphy

In what sense did Christy's arrival "knock out" some of the possible equilibrium prices that could have formed between Alice and Billy?

- All we mean is that Christy would be willing to make counteroffers to prevent some of the original equilibrium trading outcomes from occurring. Intuitively, Alice wouldn't sell Snickers at such low prices to Billy once Christy enters the scene with her stockpile of Milky Ways and her tendency to prefer Snickers.

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Question: [In what sense did Christy's arrival knock by Dr. Robert Murphy @Mises](#)

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#### 4.1.6. Explain how, at the moment of exchange, both parties in a voluntary...

Author: Robert Murphy

Explain how, at the moment of exchange, both parties in a voluntary trade expect to benefit from it.

- If a trade is voluntary, it means that both parties agree to it, that neither is being forced into making the trade. Therefore, it must be the case that each party expects to benefit from it in some sense.

Sample Partial Credit Answer

People are usually pretty good at knowing what they like.

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#### 4.1.7. Suppose a farmer trades the metalsmith 10 pigs to obtain an axe tha...

Author: Robert Murphy

Suppose a farmer trades the metalsmith 10 pigs to obtain an axe that the farmer will use to chop down trees. The metalsmith intends to keep the pigs and eventually eat them. Is this a direct or indirect exchange?

Explain your answer.

- A direct exchange occurs when both parties intend to personally use the item received, either for consumption or production. Since the farmer wants to use the axe to cut down trees, and the metalsmith wants to eat the pigs, this qualifies as a direct exchange.

Sample Partial Credit Answer

This is a direct exchange because the metalsmith eats the pigs, rather than selling the bacon to others.

Check the answer of this question online at QuizOver.com:

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#### 4.1.8. How does subjective value make "gains from trade" possible?

Author: Robert Murphy

How does subjective value make "gains from trade" possible?

- "Gains from trade" mean that both parties are better off after making a trade. This is possible because the value each person places on the goods being traded is subjective. For example, Jim can value Mary's bologna sandwich more than his peanut butter sandwich, while Mary can have the opposite preference, meaning that both can walk away from the trade with a good possessing higher value.

Sample Partial Credit Answer

People will only make a trade if they expect to benefit from it.

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Question: [How does subjective value make gains from by Dr. Robert Murphy @Mises](#)

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#### 4.1.9. In the Halloween candy example, what did we mean by an "equilibrium..."

Author: Robert Murphy

In the Halloween candy example, what did we mean by an "equilibrium position" or "equilibrium price"?

Was the textbook saying that such an outcome had to occur?

- An equilibrium occurred when there were no more gains from trade available, and where nobody could make a better offer to prevent the actual trades from occurring.  
This outcome was "stable" because if the kids began going down this path, there would be no reason for the kids to stray from it.  
The textbook was not saying that real-world children would necessarily trade their candy according to such an equilibrium, because (for example) the kids might make mistakes in their negotiation strategies, and end up having someone "call their bluff."  
Sample Partial Credit Answer  
An equilibrium occurred after all the trades were made.

Check the answer of this question online at QuizOver.com:

Question: [In the Halloween candy example what did by Dr. Robert Murphy @Mises](#)

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#### 4.1.10. Do people need money in order for market prices to form? Explain.

Author: Robert Murphy

Do people need money in order for market prices to form? Explain.

- No, market prices are simply exchange ratios in trades between different goods. Money is very useful to facilitate trades, but it is not necessary. The Halloween candy example doesn't use money, but it shows how prices form.  
Sample Partial Credit Answer  
No, there is barter.

Check the answer of this question online at QuizOver.com:

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