



**Block 2**  
**Forms of Exchange**

Pignou  
THE PEOPLE'S  
UNIVERSITY



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## UNIT 4 RECIPROCITY AND GIFT\*

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### Structure

- 4.0 Objectives
- 4.1 Introduction
- 4.2 Reciprocity
  - 4.2.1 Nature of Reciprocity
    - 4.2.1.1 Legal Enforcement
    - 4.2.1.2 Rational Enforcement
    - 4.2.1.3 Social Enforcement
- 4.3 Forms of Reciprocity
  - 4.3.1 Generalized Reciprocity
  - 4.3.2 Balanced Reciprocity
  - 4.3.3 Negative Reciprocity
- 4.4 Gift
- 4.5 Dimensions of Gift
  - 4.5.1 Social Dimension
  - 4.5.2 Economic Dimension
  - 4.5.3 Personal Dimension
- 4.6 Approaches of Gift Giving
  - 4.6.1 Anthropological Approach
  - 4.6.2 Sociological Approach
  - 4.6.3 Economic Approach
- 4.7 Let Us Sum Up
- 4.8 References
- 4.9 Specimen Answers to Check Your Progress

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### 4.0 OBJECTIVES

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After going through this unit, you will be able to:

- Describe the notions of reciprocity and gift,
- Explain the nature of reciprocity through three forms of enforcements,
- Describe the various forms of reciprocity,
- Examine the various dimensions of gift-giving,
- Understand the ways of gift-giving through approaches to gift-giving.

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### 4.1 INTRODUCTION

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The first Block, Introduction to Economic Sociology you had learnt about the relationship between society, culture and economy. You were informed about the

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two schools of thought. Formalism and Substantivism which constitutes Economic Sociology. Finally, we elaborated on the New Economic Sociology.

In this next block-Forms of Exchange in the first unit, we will discuss the concepts of reciprocity and gift from the social science point of view. The unit is divided into two sections, each dealing separately with the notions of reciprocity and gift respectively. In the first section, the idea of reciprocity is elucidated highlighting the ways in which exchange takes place and how relationships are formed through reciprocity. The notions of fairness and justice have been incorporated to exemplify the nature of reciprocity. The unit also offers an insight into the forms of reciprocity informing the patterns of relationship existing in our societies. The second section of this unit enlightens about the notions of gift and how gift giving moulds the relationship among various people. Three broad approaches of gift-giving are also discussed which inform us about the ways in which gift giving takes place which is based on the motives.

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## 4.2 RECIPROCITY

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Reciprocity is a mutual process of give and take of goods among people or group of people in settings where either both the parties (the giver and the receiver) benefit from such exchange or at least one among the two is necessarily at advantage. It is a process that leads to the formation of social relationships. To deconstruct the process of such exchange, let us take the example of the selling of goods in the market. While the seller takes an action by offering a price on his goods to the buyer, there is always a counter response from the buyer, which indicates a formal acceptance of the seller's action. Such reaction to the seller's action is the motivating force towards maintaining and sustaining relationships between the two. Some scholars (such as Homans, 1958 & Gouldner, 1960) argue that this sort of relationship between the two requires a continuous exchange in order to sustain, which would otherwise suffer due to irregularities in the process of exchange. This means that buyer is under an obligation to respond to the seller. Having said that does not advocate that this sort of exchange is carried out in a balanced manner all the time where every action of the seller will get a parallel response from the buyer. Such relationship cannot be maintained and sustained throughout due to inconsistencies in the contact through exchange.

Such a custom of exchange, according to Gouldner (1960), is implicit within the established social systems where actors constantly and mutually exchange and form relationships through giving and taking both economic as well as non-economic products or other services which paves way to further exchanges. This means satisfaction of the actors over the counterpart taken in exchange to what is given involves supplying more of what is given so as to increase the amount of incentives in exchange, which also safeguards one to become indebted to the other. The satisfaction of the actors is also determined when the in-take is considered as equivalent to what is initially given to the other. Thus there is a mutual dependence between the actors. This exchange is often met through the division of labour in our societies which form the base for the reciprocal trade through give and take process. Reciprocity here implies that the exchange process is acceptable to both the actors. In contrast, if the exchange of goods or services takes place between the unequal partners where one or both the actors show dissatisfaction over what is received against what is given, then such an exchange

cannot be called as a reciprocal exchange. Within such a structure of economic relationship where one is dissatisfied with the exchange process, the relationship will succumb to the unequal exchange. Thus reciprocity is the main reason for the exchanges to be stable and consistent and the actors are under an obligation to equally give and take to maintain their relationship and keep it balanced.

### 4.2.1 Nature of Reciprocity

The fundamental feature of reciprocity as is obvious from the above discussion is to return against what has been received. This reflects the moral nature of reciprocity which also puts an individual into an obligation to reciprocate to the giver. Further, the moral nature of reciprocity has its roots in the notions of justice and fairness. Therefore the favours that are returned can be considered as a reward and also as compensatory justice to all the goods and services received by the initial giver (Kolm, 2008). This idea can be well understood in terms of the models of justice given by John Rawls in his “*Theory of Justice*” published in 1971 such as the retributive justice characterized by “an eye for an eye”. The counterpart of what has been received, according to the retributive justice, can be the money or it can be goods for goods and services for services as in barter system. Such reciprocal exchanges take place through a legal agreement. Reciprocity involves constant exchange of economic as well as non-economic goods. However whether the return in exchange would be equal to what is delivered is always uncertain. This uncertainty is a threat to further exchanges which is resolved in terms of the enforcement mechanisms which are of three forms i.e. legal, rational and social enforcement.

#### 4.2.1.1 Legal enforcement

Legal enforcement involves ensuring parties to come to an agreement to exchange and negotiate in the process. It is a legal deed through which two parties freely accept to exchange and usually involves exchange between equal partners. Under legal enforcement, one partner can sue the other if the other fails to reciprocate. This creates a kind of tension among the partners as a result of which the principle of reciprocity is enforced.

#### 4.2.1.2 Rational enforcement

Rational enforcement is based on the idea of reason i.e. the self-interest of the partners involved in exchange. For instance, in repeated exchanges, both the parties have a rational interest in reciprocating to economic or non-economic goods which ensures further exchanges and benefits them both. This also reduces the uncertainty about reciprocating afterwards. Thus the enforcement of reciprocity arises out of the partners’ self-interested behaviour.

#### 4.2.1.3 Social enforcement

Social enforcement involves entering into exchange with the other and this initial exchange supplies information about the partners’ potentials to reciprocate. Both the partners do not possess any information in advance about the other. Under social enforcement norms, the partners’ network within the society aids in supplying the information to the other which subsequently results in the first reciprocal exchange. At the same time, this social network ensures that both the parties respect the rules of reciprocity, which otherwise results in breaking the exchange ties with the violator.

## 4.3 FORMS OF RECIPROCITY

Marshall Sahlins in his famous work “*Stone Age Economics*” published in 1972 identified three kinds of reciprocity found among people in the past (drawing from the works of Bronislaw Malinowski – 1922 and Marcel Mauss – 1990 [1950]) as well as in the present. They are generalized reciprocity, balanced reciprocity and negative reciprocity. All these three kinds of reciprocity inform the varying levels of relationship within a social setting. While generalised reciprocity is brought into practice by social groups, balanced reciprocity is employed by the communities who reasonably engage in exchange and negative reciprocity is employed by communities who have networks based on distance. All these three forms of reciprocity can even co-exist simultaneously in any society and work towards the formation of relationships.

### 4.3.1 Generalized reciprocity

Generalized reciprocity is a form of reciprocity often motivated by compassion to give as well as the generosity of spirit. This form of reciprocity involves “something for nothing” kind of exchange. This means that the one who gives away (either goods or services) attains satisfaction over the one-way transaction regardless of expecting something in return. This also means that the generalized reciprocity involves giving without anticipation for any prospective return in exchange. This kind of reciprocity is prevalent in societies where people show emotional attachment towards one another and thus feel obliged to render goods or services to others on account of relative need. A common example of this kind of reciprocity can be traced from both traditional and contemporary families in which parents nurture their children, provide them with all the basic and needful amenities without any expectations of the corresponding return. However Ekeh (1974) argues that in generalized reciprocity, services (or goods) given by one is not necessarily returned by the receiver but by some other. For this reason, Fowler and Christakis (2010) call it “pay-it-forward” reciprocity.

The other way to understand generalized reciprocity is the way Scholars such as Fowler and Christakis (2010) have explained it. According to them, if a person has, at any point of time (in the past), been helped by any individual, then this person will most often decide to offer help to others regardless of any expectation of return. This means that people choose to offer help to others on the basis of whether they were offered any help in the past without taking into consideration the person who initially offered the help. Thus there is always a possibility that those who have been helped by some in past may offer help to anyone in the future and this is independent of the identities of givers of help as well as those at the receiving end. In general, this sort of reciprocity is dominant among small human settlements in which members of these settlements are relatives, or live in communities culturally connected.

#### Activity 1

After going through the above sections; try and recall or ask four family/friends about some real-life stories of people passing on help to others since they themselves were helped or cared for by others unknown to them in society. Write a two page essay on “Reciprocity in Social Groups” and discuss it with other students of your Study-Centres.

### 4.3.2 Balanced reciprocity

This form of reciprocity involves forming relationships between communities as well as between individuals and maintaining this relationship over a longer period of time through reciprocity. One common example of balanced reciprocity is the reciprocal invitations to ceremonies and other occasions of cultural importance. However, there can also be the transference of goods or services which have to be reciprocated almost equally so as to balance the exchange and meet the expectations of the giver for his satisfaction. The return in balanced reciprocity is immediately anticipated or as per the demands of the giver. However, sometimes, the giver fixes some specific time for its return. Failure to reciprocate within the specified time, the giver discontinues giving goods and/or services to the other. Not only does the giver discontinue transferring goods to the receiver but the giver also chitchats to others, or compels the receiver to reciprocate or sometimes terminates all relations with the receiver until the latter returns goods and/or services of equal or approximately equal value. Balanced reciprocity does not involve bargains or negotiations between the giver and receiver, which is fundamental to this form of reciprocity.

In balanced reciprocity, alongside the value of return being roughly equal to what has been received, the receiver is under an obligation to reciprocate. Therefore, the test of this form of reciprocity is the lack of capacity to endure single-sided transference. In common parlance, people turn aggressive and show disappointment over the receivers' failure to reciprocate through goods or other invitations. Within the Indian familial set-up, the two-side flow of substantial goods informs the attachment between two parties and defines their relationship. If, in such an attachment between the two parties, one reciprocates but fails to do so in equal reciprocation, then the relationship between the two gradually starts weakening and will vanish over a period of time following similar kind of exchanges. Thus the relationship between the two parties largely depends on reciprocity based on fair exchange, without any direct bargain.

### 4.3.3 Negative reciprocity

Negative reciprocity is the opposite of generalized reciprocity and its use among the economists and social scientists is rare. Negative reciprocity is prominent in the works of Marshall Sahlins titled "*Stone Age Economics*" published in 1972. In this form of reciprocity, one party intends to gain at the expense of others. The distinguishing feature of this form of reciprocity is that both the parties make efforts to acquire all in the exchange process by returning as little as possible. This means that negative reciprocity involves obtaining goods or services at the nominal cost. Also, in this form of reciprocity, one always intends to take revenge which subsequently results in the reduction of profit and creates a non-cooperative atmosphere between the two parties which further hampers their exchange relationship. Thus as Kolm (2008: 11) puts it, there is the "reciprocation of revenge and retaliation for deterrence, which is only partially symmetrical to and does not have the fundamental role of .... reciprocity". Negative reciprocity is an archetype based on the behavioural aspects and is significant in socio-economic milieu. It involves exchange based on retaliation such as 'haggling', 'barter', 'gambling', 'chicanery', 'theft' and 'other varieties of seizure' (Sahlins, 1972: 195) in which goods are obtained out of impunity in the absence of social

interaction (Ingold, 1986) and is based on the notions of “an eye for an eye and a tooth for a tooth” according to game theorists Fehr & GÖchter (1998: 845).

**Check Your Progress 1**

1. What do you understand by reciprocity? Write in a few lines given below.  
.....  
.....
2. Fill in the blanks:
  - a) .....ensures that the parties come to an agreement to exchange and negotiate.
  - b) .....reciprocity determines the nature of reciprocity.
3. Which of the following does not fall under the forms of reciprocity?
  - a. Positive reciprocity
  - b. Balanced reciprocity
  - c. Alternate reciprocity
  - d. Negative reciprocity

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**4.4 GIFT**

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A gift can be considered as a social, economic or even cultural exchange intrinsic to human societies across the globe and significant for social relationships to sustain (Camerer, 1988). A gift can be material or non-material thing transferred either voluntarily to the other or sometimes on the demand of the other. Common examples of material goods are money or some other tangible thing while as non-material things include intangible things such as time, attention, love, etc. The fundamental feature of gifts is that there is always a kind of reciprocity involved in gift giving and for this reason gift giving is considered as a fascinating and unanimous activity carried out by humans. It is also understood as a process that brings in integration within a society due to its symbolic dimension that exchanging gifts can vividly communicate cultural meanings. Therefore as Edward Schieffelin, in his article “*Reciprocity and the Construction of Reality*” published in 1980, writes: “gift giving...is properly a vehicle of social obligation”. This can be one way of understanding the term gift. However in economic terms, people may think of the gift in terms of trade as a reciprocal exchange. But gift essentially is at variance with the reciprocal trade. A moderate understanding of the gift deems it as any material thing that is given by one to the other. During this exchange, the aspects of the return such as the type of gift, price as well as the time to return a counterpart remains undecided. This differentiates gifts from the trade relationships where both material and non-material things are equivalently exchanged for what is initially received.

To examine the economics of gift-giving, one needs to understand the sensitivities of the value of gifts being exchanged. Studies so far conducted on the economics of gift-exchange suggest that givers attach a greater value to the gift they give to

their associates. At the same time, the receiver attaches a little lesser value to the gift being received than its actual value. As a result of this, both the parties will eventually bring an end to such exchange. However Cheal in his book *“The Gift Economy”* published in 1988 argues that despite such economic inadequacies, which can have severe psychological implications on both the parties, the practice of gift exchange has become a universal phenomenon. This process of giving and receiving gifts is in effect inflating with new gift items being exchanged on instances which are even newer. Garner and Wagner in their article *“Economic Dimensions of Household Gift-giving”* published in 1991 pointed out that whether it is an economic or a social transmission of material or non-material things, such exchange is considered as a gift exchange if governed by a pre-established relationship between the two parties. As a result of this pre-established relationship, both the parties are under an obligation to give in return to what they receive.

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## 4.5 DIMENSIONS OF GIFT GIVING

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The practices of exchange were the governing characteristics of the tribal economies as studied by Levi Strauss in his anthropological study *“The Elementary Structures of Kinship”* published in 1969. However this can only be one way to understand the notions of gift which informs the patterns of exchange in economic context. However, there are three broad dimensions through which one can understand how gift-exchange operates in different contexts. These are:

### 4.5.1 Social Dimension

On the social front, gift giving can be understood in terms of inviting people to form relationships. At the same time, gifts also inform about the givers' sincerity in participating in the receivers' joys and sorrows, however there is always a hidden reason in such participation. Within social dimension, there is the manifestation of ties and relationships between the one who gives a gift and the one who receives it. However, the negative sensations carried by such exchanges are at times, but not all the time, deceptive. Sometimes, there are positive motives hidden in such exchanges and thus gifts are given for motives such as social integration and for maintaining virtual intimacy in relationships characterised by social distance. Marcel Mauss' (1990 [1950]) work holds significance in the ways the idea of gift giving is interpreted in the present era for two reasons. One is that Mauss considers gift giving as an ideal bond between the two parties and; secondly he considers gift giving as a form of optimal behaviour. During the process of giving and receiving gifts, various elements of gift such as the value and quality inform the nature of relationship between the two involved in exchange. For example, if the gift is exchanged within intimate relationships, the value of gift will be more. Thus if there is a change in the patterns of relationship, the exchange does not stop however, the elements of the gift will change. So there is a correlation between the nature of relationship and the elements of the gift. Social dimension of gift exchange involves relationships which are personal and concerned with the common collective interest and the level of trust is always high.

### 4.5.2 Economic dimension

The economic dimension concerns the ideological connotations of gift giving and involves the expressions of value of the gift. The exchange of gifts is

considered as a way of giving substantial benefits to the receiver. This puts the receiver into an obligation and forces him to reciprocate. Reciprocation in such exchange upholds the receivers' reputation which otherwise disrupts the relationship between the two. Also as discussed in the social dimensions of gifts, the elements of the gift is central to economic dimension also. If the exchange between the two parties is approximately equal, the exchange can be said to be balanced. According to the economic exchange theory, gift giving is a contract in which both the parties benefit from the twin processes of giving and receiving provided the exchange is balanced. However, the relationship between the parties is a formal one and involves self interest of the parties. But the exchange has to be fair which satisfies both the parties and keeps the exchange balanced. Economic dimensions of gift involves impersonal relationships where there is little or no trust.

### Activity 2

Attend a wedding ceremony or recall what happened during a wedding in your family and make a list of "gifts" (such as; Jewellery, clothes, electronics etc.) given or received between the Bride and Bride grooms family.

Write a note of one page on "The Wedding Gifts and its Significance" stating your observation as a sociologists/social anthropologists. Share your note with others at your Study Centre.

### 4.5.3 Personal dimension

Within the personal dimension, the process of gift exchange indicates the experiences of giver's and receiver's identity. Thus there is the expression of self and the identity of giver is confirmed through the way gifts are presented to the other. Parallel to this is the acceptance or rejection of gifts by the other which can be a deliberate confirmation of other's identity. Identity predicament is often the manifestation of giving, receiving or refusing the gifts strategically. Therefore there is always a motive behind the gift-giving in terms of the personal values. Scholars have differentiated between various kinds of motives involved in the gift-giving which govern the behaviour of exchanging parties. Soloman's (1992), for example classifies motives into utilitarian and hedonic motives. The former leads to the achievement of functional benefits and latter is based on emotional or experiential rewards for self. Similarly, giving and obtaining pleasure is based on Sherry's (1983) classification of motives into altruistic and agnoistic. While altruistic motive involves augmentation of the pleasure for the receiver, agnoistic motive symbolizes acquiring personal reward for self (the giver). Thus gift-giving is always agonistic because people give to gain (pleasure).

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## 4.6 APPROACHES OF GIFT GIVING

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Having discussed the dimensions of gift-giving informs us about the ways in which gift-giving can be approached. There are three broad approaches to gift-giving. These are anthropological approach, sociological approach and economic approach.

### 4.6.1 Anthropological approach

Anthropologists such as Bronislaw Malinowski (1922) and Marcel Mauss (1990 [1950]) were fascinated with the notions of gift giving since the roots of gift-

giving can be traced from the primitive societies. According to them, those who give gifts to others expect repayment with interest. This means that the value of gift was an issue taken into consideration even in primitive societies. By giving gifts, people stocked up mass wealth which they exhibited on ceremonies. Thus gift giving in archaic societies would help determine one's wealth or status. This functionality of gift exists in the modern mechanisms of gift exchange also. However the contrasting feature of the modern way of gift giving from that of the primitive modes is that there is no reciprocity in the modern practices of gift-giving unlike in the primitive societies where reciprocity was one of the chief features.

#### 4.6.2 Sociological Approach

Sociologists hold the view of anthropologist Bronislaw Malinowski in the sense that they too consider gift-giving as a kind of self expression and developed this view further by stating that gifts communicate and symbolize meanings. Gift giving for sociologists is a way of conveying 'self' to the recipient which further shapes the recipient's identity. Such conveyance involves the expression of bonds between the giver and the receiver. Thus what is symbolic in this exchange is the meaning that the giver attaches to the gifts, involving the elements of the gift such as the choice of the gift, value, vigour in making selections which further serve a vast number of functions such as conveying identity, governing relationships, imposing fair distribution (reciprocal justice), setting boundaries and so on. These functions fall under the motives behind the gift giving.

#### 4.6.3 Economic Approach

The economics of gift exchange is more about the efficiencies and inefficiencies of the process of gift-giving. Through economic approach, every individual cares for self-interest and the regard for the benefits of others are seldom taken into consideration. The fundamental feature of gifts according to the economic approach is the 'signal' as opposed to symbol in the sociological approach. The common notion that while a party gives gift to the other but does not expect a return immediately is in contrast to how gift exchange occurs on the economic front. For example, a person goes to the shop and asks for something in return to which the person pays a parallel amount to the shopkeeper. If the similar situation takes place in giving gifts where the gift of equal value is returned immediately, this signals that the other party is not interested in establishing a relationship with the initial giver and so rejects it through immediate return. As a result, both the parties are free from being under obligation to return or reciprocate to the initial giver or exchange further. However to illustrate the situations where gifts are given without expecting quick return, economic approach proposes that there are the hidden desires to receive immaterial returns against the material gifts such as self-esteem, love and affection, honour, and so on.

#### Check your progress 2

1. Define gift in your own words?

.....  
 .....

2. Who is the author of the book “*The Elementary Structures of Kinship*”?  
.....  
.....
3. Which among the following is not the dimension of gifts?
  - a. Personal Dimension
  - b. Kinship Dimension
  - c. Social Dimension
  - d. Economic Dimension
4. Negative sensations carried by gift exchanges are sometimes deceptive.
  - a. True
  - b. False

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## 4.7 LET US SUM UP

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In this unit, you have learnt about the notions of reciprocity and gift. It is divided into two sections. Section one (i.e. reciprocity) discusses the concept of reciprocity and section two (i.e. gift) deals with the notions of gift. Gift exchange, as a complex phenomenon, involves the transmission of tangible and intangible goods devoid of any calculations. As a symbolic practice, it constructs a space for the people to aptly display their feelings to the receivers of the gift and paves way for the relationships to sustain. Due to this, the gift-givers get motivation for investing even higher amounts on gifts which conveys a robust signal to the receivers. At the same time, there is an incessant variance in the nature of gifts, instances on which gifts are exchanged and the motives behind such exchanges. The unit offers an insight into the shifting of motives from generosity to self-interest from the economical point of view but there is a social dimension also involving gift-giving for the continuity and for strengthening the bonds between exchanging partners. There are three broad approaches of gift-giving, which enlightens about the ways in which the notions of gift-giving and the return can be understood. Within the sharing of gifts is the principle of reciprocity involving five elements of gift such as value, respect to the other, obligation, moral factor as well as altruistic and agonistic aspects. Other than them, there are certain enforcements that determine the nature of reciprocity within the exchange system. The unit also offers an understanding of the different forms of reciprocity and how each of them is different from the rest.

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## 4.9 SPECIMEN ANSWERS TO CHECK YOUR PROGRESS

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### Check Your Progress 1

1. Reciprocity is a mutual process of the exchange of goods or services between two parties, which helps them establish relationships for exchange in future also.
2. (a) Legal enforcement  
(b) Balanced Reciprocity
3. C

### Check Your Progress 2

1. A gift is a tangible or intangible thing given, freely or on request, by a person to the other where there is the least expectation of any immediate return.
2. Claude Levi Strauss
3. C
4. True

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## UNIT 5 EXCHANGE AND MONEY\*

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### Structure

- 5.0 Objectives
- 5.1 Introduction
- 5.2 Understanding money and exchange
  - 5.2.1 Money
  - 5.2.2 Exchange
- 5.3 History of exchange
- 5.4 Changing dimensions of exchange
  - 5.4.1 Medium of exchange in hunting and gathering societies
  - 5.4.2 Medium of exchange in pastoral societies
  - 5.4.3 Medium of exchange in agricultural societies
- 5.5 Modern forms of economic exchange
- 5.6 Functions of Money
  - 5.6.1 Medium of Exchange
  - 5.6.2 Store of Value
  - 5.6.3 Unit of Account
- 5.7 Money and Legitimation
- 5.8 Let us sum up
- 5.9 References
- 5.10 Specimen Answers to Check Your Progress

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### 5.0 OBJECTIVES

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After going through this unit, you will be able to:

- explain the notions of money and exchange,
- discuss the patterns of exchange in the past,
- describe changing dimensions of exchange,
- describe the basic functions of money,
- differentiate between various forms of money, and
- understand the legal issues concerning money.

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### 5.1 INTRODUCTION

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In unit: 4 Reciprocity and Gift you had learnt about the nature and process of reciprocity and gift and its social significance. Here in this unit on “Exchange and Money”. We will explain another aspect of social significance.

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At the onset, it is important to know that exchange or money cannot be discussed in absence of the other. Scholars across social science disciplines have always dealt with one in relation to the other. Since money is always used as a medium of exchange, a function of the money that will be pondered upon in this unit. Therefore these two terms i.e. exchange and money will be discussed concurrently in this unit also. However, to understand the notions of money and exchange, the unit initially offers a discrete understanding of money and exchange and then provides a historical account of exchange in relation to the money by accentuating on various media of exchanges that existed in societies in the past. The unit also offers an understanding of the changing dimensions of exchange from traditional forms of commodity as a means of exchange to the modern forms of e-money, cheques and bills. As mentioned above, money serves as a medium of exchange, but it also serves other functions which will be emphasized upon in this unit. Also, how value is attached to the commodity used for manufacturing money is a question that the unit enlightens about by emphasizing on the legitimizing aspects of money. On a broader note, the unit will enlighten about the social aspects of economy (from past to present) that binds the groups and communities together and pushes them towards establishing relationships based on exchange.

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## 5.2 UNDERSTANDING MONEY AND EXCHANGE

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When we discuss and explain the different forms of exchange the two immediate notions come to our minds. These are money and exchange:

### 5.2.1 Money

Money as a means of exchange is something that people give to obtain goods or services. But it can also be something that people accept to deliver goods or services. Money, according to Zelizer (1994) is the sole 'interchangeable' and a completely 'impersonal instrument'. For economists especially, money is specific in its meaning however the usage of money in daily exchanges carries different meanings. The way in which money is used by economists is at variance from the conventional use of money. For economists, money is a channel through which exchange takes place and is accepted only in the form of payments for tangible or intangible goods or against any unpaid amount. Currencies such as *Rupee* or *Dollars* are the appropriate forms of money. Thus when people speak of the money, they are in essence referring to the currencies (that exist in the form of paper money or in coins). In this sense then, people all across the globe exchange money to receive something in return, and therefore imagining of a world without money is challenging. However, there is a contradiction in the sense that if imagining of a world without money is difficult, then how the exchange system existed in the primitive societies? To elucidate, we will first see how the exchange took place among people in primitive societies and the subsequent transition from non-monetary to monetary exchanges. But before delving into how exchange operated in the past and the transition thereof, let us first understand the meaning and notions of exchange.

### 5.2.2 Exchange

Exchange is a process of giving and taking, a mutual dependence characterised by two separate features – cooperative and competitive. The cooperative

characteristic of exchange has its roots in shared benefits. This is to say that the cooperative feature of exchange involves benefitting both the parties through the exchange process. The other is competitive exchange exhibiting conflict intrinsic in exchange process (Blau, 1964). The comparative explanation of two aspects of exchange – cooperative and competitive – keeps changing depending on the objective aspects and subjective discernments of exchange. Two important forms of exchange i.e. *reciprocal* and *negotiated* exchanges largely depend on the two broader aspects of exchange i.e. cooperation and competition. The negotiated form of exchange binds the actors thus reflecting cooperation. In such exchange, both the actors involved in exchange encounter fair rewards through exchange wherein the rewards of one correspond to the rewards of the other thus reflecting cooperation among the two. The other is reciprocal exchange reflecting the conflict of interests. In reciprocal exchange, though both the actors are given benefits but there is no negotiation and so there is a tendency towards conflict in this form of exchange which becomes apparent through competition in the exchange process. Also, while in negotiated exchange, the parties accept the conditions of exchange which are binding upon them; but in reciprocal exchange, the parties give away for others' benefits without any anticipation of when or if the other party will reciprocate.

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### 5.3 HISTORY OF EXCHANGE

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While people lived in communities since ages and using money in the form of commodity was customary, but money also existed in the form of metallic things such as gold and silver. However what constitutes the currency in any given social system varies from time to time and includes various tangible things accepted as substitute of money. This reflects that money through ages has been understood and realised in various forms and the various forms of money acceptable in societies depended largely upon the necessities of people in these societies. As such, there are two forms of money. One that involves the exchange of goods for goods and other involves exchanging currency for goods. The former is with intrinsic value called as *commodity money* and the latter is called as *paper money* with no intrinsic value (Mishkin & Serletis; 2011). But different stages of the evolution of money can be traced through the growth of human civilization across time and space. Money initially evolved in the form of commodity (based on the barter system), transited through metallic money (coins), paper money (bank notes) and credit money (cheques) until it reached to the plastic money (credit and debit cards) and e-money used for online transactions (Chinnammai, 2013). In the following sections, we will discuss about the transiting nature of money from commodity to bank notes to electronic money (or e-money).

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### 5.4 CHANGING DIMENSIONS OF EXCHANGE

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In the past, societies largely used commodity (both tangible and intangible) as the medium of exchange which were unanimously acceptable to all in a given social setting. Every person accepted goods as payment in exchange for their own goods or services delivered. This means that commodities carry certain value for which it qualified to be accepted as money. However, there was a precondition for any form of material goods to be considered as commodity money and this is

how it distinguishes from other forms of commodity exchanges. This form of commodity money has been existent since hunting and gathering societies, pastoral societies and agricultural societies. The commodities in each successive society, however, differ from the other and can best be understood separately.

#### **5.4.1 Medium of exchange in hunting and gathering societies**

One of the most undeveloped societies was the *hunting and gathering society* in which survival largely depended on hunting. The most surviving state of affairs in such societies was the property met out due to hunting which carried certain value acceptable to all. For example, skin of the hunted animals was being exchanged for clothing thus constituting one of the earliest commodity money. This form of commodity money is still existent in some parts of the world where exchange in the form of goods for goods of this kind takes place. Alongside the commodity money made through hunting, people also exchanged weeds and roots as forms of food and also used for medication purposes.

#### **5.4.2 Medium of exchange in pastoral societies**

While there was a transition from hunting and gathering societies to the *pastoral societies*, the commodity money also marked a shift thus bringing in a significant change in the nature of commodity money from skin and fur of the hunted animals to commodities in the form of cattle, which constituted expensive yet negotiable forms of commodity money. These domestic animals were suitable for quick transfer and be kept for longer periods of time in the form of live-stock than skin or fur of the hunted animals.

#### **5.4.3 Medium of exchange in agricultural societies**

In *agricultural societies*, commodity money existed in the forms of produce from the fields. The produce from the fields included vegetables, fruits, maize, rice, wheat and so on besides other cultivated produce of daily use. At the same time, certain kinds of animal food such as eggs were also used as a form of commodity money in agricultural societies. However this is not to say that currency did not exist during this phase. But people practiced exchange more in terms of the commodity money and the currency would be used to make purchases of the goods or services which were not available for exchange against commodities. While the commodity money of this form is still existent in rural India, however there has been a transformation in the type of money being used for exchange. Again, this is not to say that the commodity money does not exist in the present societies. It does exist but the exchange takes place at a broader level in the form of export and import of goods for goods or goods for money and so in modern (industrial) societies, there exists a dual currency in the form of commodity and bank notes. While the nature of commodity money also transformed from material goods of daily use to the precious metallic commodities such as gold, the paper money too emerged in the form of bank notes as well as cheques.

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### **5.5 MODERN FORMS OF ECONOMIC EXCHANGE**

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As mentioned in the previous section, paper money emerged in the form of bank notes as well as cheques. These are the modern forms of monetary economy and

generally accepted as a mode of payment within the process of exchange. Both bank notes as well as cheques are legally accepted as the forms of payment-making-currency which originated due to the growth and expansion of modern technologically advanced banking (Eisenstein, 2011). Due to its legitimation factor, currencies are being exchanged across countries. However, the evolution of paper money was not the manifestation of the vanishing of metallic money. Paper money had a strong backing of the metallic money in the form of gold in the sense that it was an easy go task to convert paper money into gold in times of demand. Due to this, there was a sudden rise in the cost of gold and silver. After this transition in the form of money and the inconvertible feature of paper money into metallic money, bank notes came to be the accepted form of money only because it is considered as a legal tender. However the negative aspects of paper currency, such as being easily stolen and difficult to transport larger amounts, led to the evolution of modern banking system in which cheques were the means of exchange. While cheques evolved as the portable form of money, it did not replace the bank notes. Both bank notes and cheques existed simultaneously and continued to be major forms of money in the modern world. However the difference between the two is that bank notes did not lose its value on exchange but a cheque expires after the transaction is made. For larger transactions, cheques are the means of exchange unlike bank notes used for petty exchanges.



Illustration

There has been yet another major transformation in the modes of payment in the contemporary times. Alongside the existence of paper money in the form of cheques and bank notes, the transactions are done through bills and saving certificates as well as through online payment mode. The online transaction is a kind of digitalised form of economic transaction commonly called as e-money. This digital economic exchange is ensured by the technological innovations such as online banking system, mobile banking, paytm and so on. While through paper currency, the transactions are done for larger amounts however digital mode of transactions does not allow for larger amount transactions so as to come in line with the paper currency transactions. There is always some limit on the amount being exchanged through online mode. However the online payments are a quick mode of exchange and done in a little amount of time. The other form of money for exchange in the digital world is through plastic money. Plastic money exchanges take place through credit, debit and other cards.

### Check Your Progress 1

1. Define money in your own words?  
.....  
.....
2. Plastic money is the money made of plastic. True or false.
3. Transaction through digital money involves ..... payments.
4. Negotiated exchange is a form of exchange characterised by .....  
(cooperation/competition).
5. Payments through Credit/Debit card is a form of ..... money.

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## 5.6 FUNCTIONS OF MONEY

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The functions of money can be determined in the way it is used in exchange of goods and services or other transactions thus acting a medium ensuring exchange. It retains the value till the time it is under possession. Money also functions as a measuring factor in determining the value of relative goods and services thus enabling a better buy among corresponding goods. It is also through money that the value of commodities in the market is determined. John Hicks in his *Critical essays in monetary theory* published in 1967 states that money can be defined through the way it functions. Economists (such as Ingham, 2004; Mishkin & Serletis, 2011) and Social scientists alike (such as Maurer, 2006; Carruthers, 2010) have mentioned three important functions of money. They are *medium of exchange*, *store of value*, and *unit of account*. According to them, the distinguishing factor between ‘money and other assets’ lies in the former for being a medium of exchange.

### 5.6.1 Medium of Exchange

The foremost function of money is that it is the medium of exchange. Medium of exchange in general means receiving anything in exchange for goods and/or services. However, since the focus here is on money, therefore money acts as a medium of exchange for being used to buy goods or services. In making transactions, we use money in the form of bank notes and cheques in exchange to goods and/or services. The notion that money is a medium of exchange lies in its value that holds significance while making transactions. And for the transactions to be successful requires an on-hand medium of exchange. Unlike in the ancient societies where there was the exchange of commodities for commodities and the exchange occurred only when there was the need of certain goods, the modern modes of payment involves money as a medium of exchange for goods or services free from any difficulties in the mechanism of exchange. Money as a medium of exchange is based on two pre-conditions: one identifying a person who is in need of what the one offers; and two this identified person must have what the other is looking for. The former fits into the form of exchange that existed in the past where commodities were exchanged for commodities, but the latter fits into both the traditional as well as modern societies. This process of identifying the suitable person based on the goods they possess for exchange against what they do not

have is termed as double coincidence. The double coincidence of the medium of exchange ensures the dependency for commodities based on the division of labour and the production of goods which in turn encourages specialization of roles and thereby resulting in a growth in the production.

### 5.6.2 Store of Value

Store of value is another function that money serves. Money acts as a storehouse of purchasing power. The purchasing power is reflected through the amount of money saved for future purchases. People tend not to spend all of the money upon receiving it. They keep a fraction of the received money for future use. For instance, a labourer who receives some money in exchange to the labour spends only a proportion of it and preserves some proportion of it for use during paucity thus ensuring future exchanges. The underlying idea of the store of value embodies money as a channel through which it can be saved which guarantees the purchasing power at different intervals of time. This involves shifting of purchasing power from present to future thus holding the value of money over time. A common example of this kind involves keeping money in a locker and taking it out during times of needs. Also while utilizing the preserved money, it does not lose its value but can buy almost the same things which it could buy in the past.

Now the question arises that why money only serves the function of store of value when the commodities also preserve the value? Answer to this question rests on the fact that while both money and commodities (such as land, house, or other commodities) can be the stores of value but the difference lies in the liquidity of the money. While the money and commodity can be exchanged and preserved but money is the most liquid of all assets. This means that money does not require any conversion to determine its value or to make any purchases. It is a value in itself. But commodities have to be converted into money in order to make purchases and the nature and measure of commodity determines its value. Also the value of commodity is always in flux. For example, a person sells his piece of land in order to pay the debt. He most likely settles down for a low price in the deal thus reducing the value of commodity being sold. Therefore land, in this case, cannot be considered as a good store of value. Money, being most liquid, is the good store of value because its value is fixed and does not change over time.

#### Activity 1

Visit a “Sabji Mandi” i.e. a fruits and vegetables wholesale market for a few days, observe the sale of fruits and vegetable and the rate of their prices. Talk to the vendors or sellers about the reasons for price fluctuation in various items.

Write a note on “value of Fruits and Vegetable and their marketing” Share your ‘note with others in your Study Center.

### 5.6.3 Unit of Account

The third function of money i.e. unit of account helps determine the measure of value. Unlike in barter economy with no measure of value except that there was the exchange of commodities for commodities, money as a unit of account helps measure the value of goods or services being exchanged. For example, if we

measure the monetary value of one kilogram of chicken and one kilogram of mutton (such as chicken for Rs. 150 and mutton for Rs. 450), we would say that mutton is thrice as expensive as chicken. The relative value of money and commodities in this case can easily be compared. Prices of the commodities are measured only through its monetary value. Money as a unit of account is used to compare the prices of various goods. This means that the measurement of value depends on the medium of exchange.

To simplify the process of measuring the value of goods and services, let us take the example of currency in different countries such as United States, United Kingdom, India, Europe, etc. Each of these countries use a different currency as the medium of exchange and their respective currencies are the basic unit to measure the value. In these countries, any kind of goods that are being sold at some price reflects certain value in terms of the currency of selling country. Using currency as a factor in comparing goods, we can make a better bargain by selecting the currency which offers goods at minimal prices in the exchange market. The prices of goods are quoted in various units differing from one country to another. The unit in which price is quoted in a country is the unit of account of that country. In India, the unit of account is rupee, Dollar in US, Euro in Europe and so on.

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## 5.7 MONEY AND LEGITIMATION

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While in the above section we have made clear what constitutes money through the ways in which money functions in its various forms such as commodity money, paper money, plastic money and/or digital money or e-money. All forms of money serves as a medium of exchange but can e-money be accepted as money because it serves all the three functions discussed above? To clarify, all forms of money can be the medium of exchange but all means of exchange does not necessarily constitute money. This argument stands as a base to elucidate what actually constitutes money. There apparently comes in something that is beyond the economic aspects of defining money and this something is 'legal'. The legal aspect places restriction on what constitutes the legally accepted money as against the means of exchange. Therefore, while e-money qualifies to be called as a medium of exchange, however it does not qualify to be accepted as money because there is no legal sanction to e-money in India however transactions done through e-money are predominantly based on mutual agreement between two actors.

The argument above can be explained through the value that is given to money by the government without considering the manufacturing material of money. Government releases money, places some value over it and legalizes it for transactions. The money released by the government has a legal endorsement and therefore economists call it "legal tender money" (Fuller, 1989) and this makes it obligatory for the people to accept it as a medium of exchange. The legal tender money is the only medium which is accepted by the finance organizations to realise debts from its customers. However there is limit to the value of currency being accepted in return to the debts. For example, in India during the end of 20<sup>th</sup> century, there was a limit in the value of lower coins, such as 25 paise or 50 paise, being received against the debt upto a value of rupees twenty five. In India, RBI legally invalidated the circulation of coins in the

denomination of 25 paise or below and this came into effect from 30<sup>th</sup> June, 2011 (Chinnammai, 2013). Therefore in exchange market, people may refuse to accept money paid in lower denominations if it exceeds the set limit. In such a case, coins of lower denominations, if exceeding the limit, cease to be a legal currency.

### Check your progress 2

1. Mention the three basic functions of money.
  - (1) .....
  - (2) .....
  - (3) .....
2. Only e-money can determine the value of goods or services in the modern societies. (True or false).
3. What is 'e' in e-money. (..... money)
4. What is legal tender money?

.....  
 .....

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## 5.8 LET US SUM UP

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In this unit, we have discussed the two terms of money as exchange and well as the mechanism of exchanges that existed in our societies in the past and the forms of money that were used in exchange process. The unit offers a brief historical account of money and exchange. It traces the changing dimensions of exchange from commodity to bank notes that existed from past to the present respectively. The unit then marks a shift towards elucidating what constitutes paper money vis-a-vis the modern forms of exchange. The unit also offers the functional aspects of money by shedding light on money as a medium of exchange, its value and money as the unit of account. It also informs about the legal aspects of money by focussing on how money becomes legal commodity.

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## 5.10 SPECIMEN ANSWERS TO CHECK YOUR PROGRESS

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### Check Your Progress 1

1. Money is a medium of exchange utilized to receive goods or services.
2. False
3. Online
4. Competition
5. Plastic

### Check Your Progress 2

1. (a) Medium of Exchange, (b) Store of Value, and (c) Unit of account
2. False
3. Electronic
4. Legal tender money is the money that has a legal endorsement of the government.