

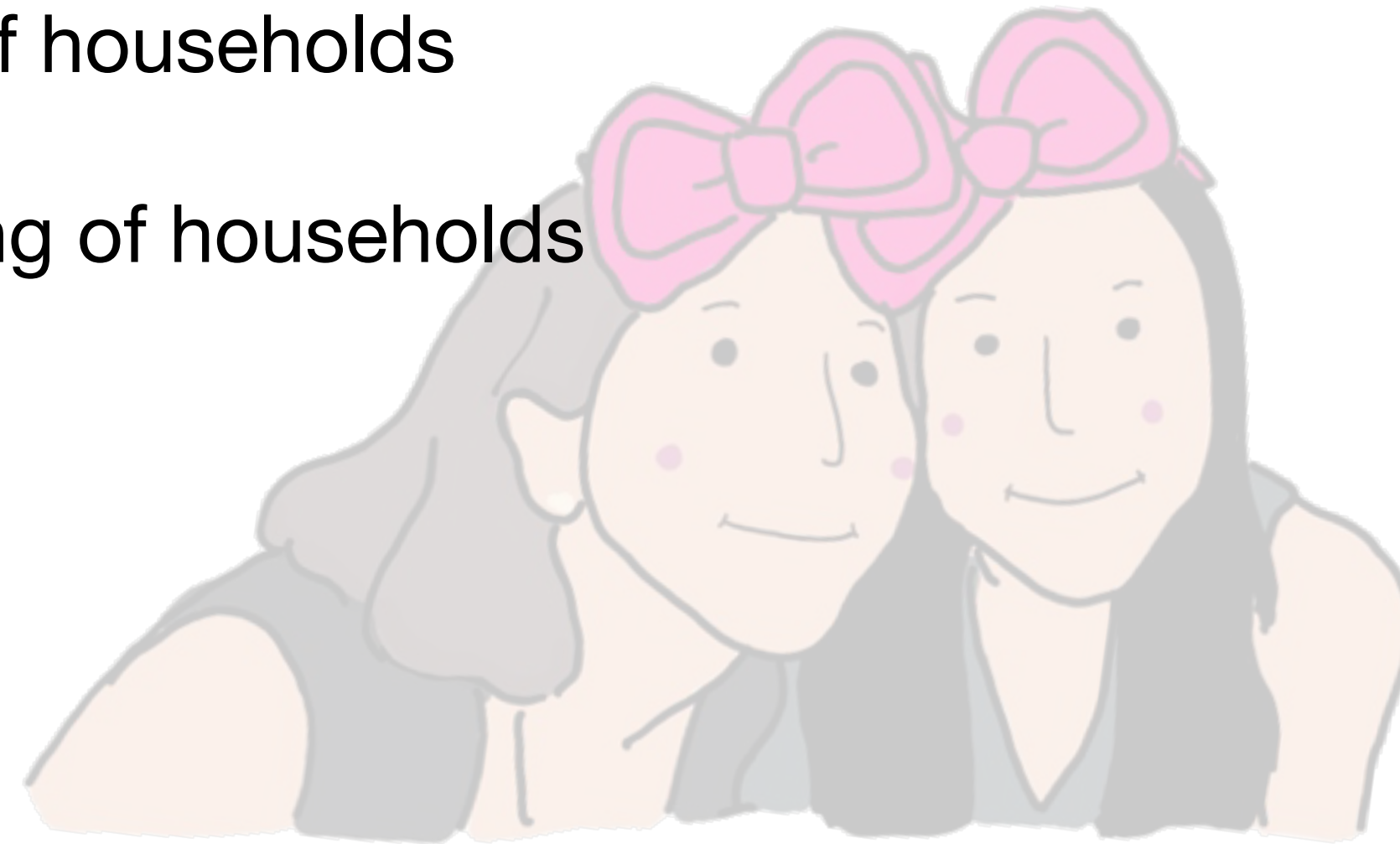


# **MICROECONOMICS - Households**

By Kru P'Eve and Kru P'Da Knockout.Economics

# Overview

1. Factors affecting spending of households
2. Factors affecting saving of households
3. Factors affecting borrowing of households



# 1. Factors affecting spending of households

## 1. Spending

: People spend in order to consume goods and services and to sustain a given standard of living.

### 1. Disposable income

- As disposable income increases, people have more ability to spend on goods and services.
  - ➔ People usually spend more in total

### 4. Rate of interest

### 2. Wealth

- Stock of assets such as bank account, shares, cars, property, government bonds.
  - ➔ People have more ability to spend on goods and services.
  - ➔ People usually spend more in total

### 3. Confidence

- People have higher consumer confidence (eg. Feel more optimistic in the future)
  - ➔ they are likely to spend more.

- If the rate of interest fall, people are likely to save less and spend more

### 5. Technology

- Advance technology tends to increase spending.
  - ➔ Eg. Online-Shopping (Easier to access any goods and services by using internet)

## 2. Factors affecting spending of households

### Average propensity to consume (APC)

$$\text{Average propensity to consume} = \frac{\text{Total consumption}}{\text{Disposable income}}$$

: When people have **low income**, **APC is likely to be high.**

: When people have **high income**, people tend to **increase in total spending** and **APC is likely to be low.**

# 1. Factors affecting spending of households

## Pattern of expenditure

**1. The differences in income** : tends to have different pattern of spending

➔ **Rich people** : spend more in total, but usually smaller proportion of income on basic needs (eg. Food, accommodation) .

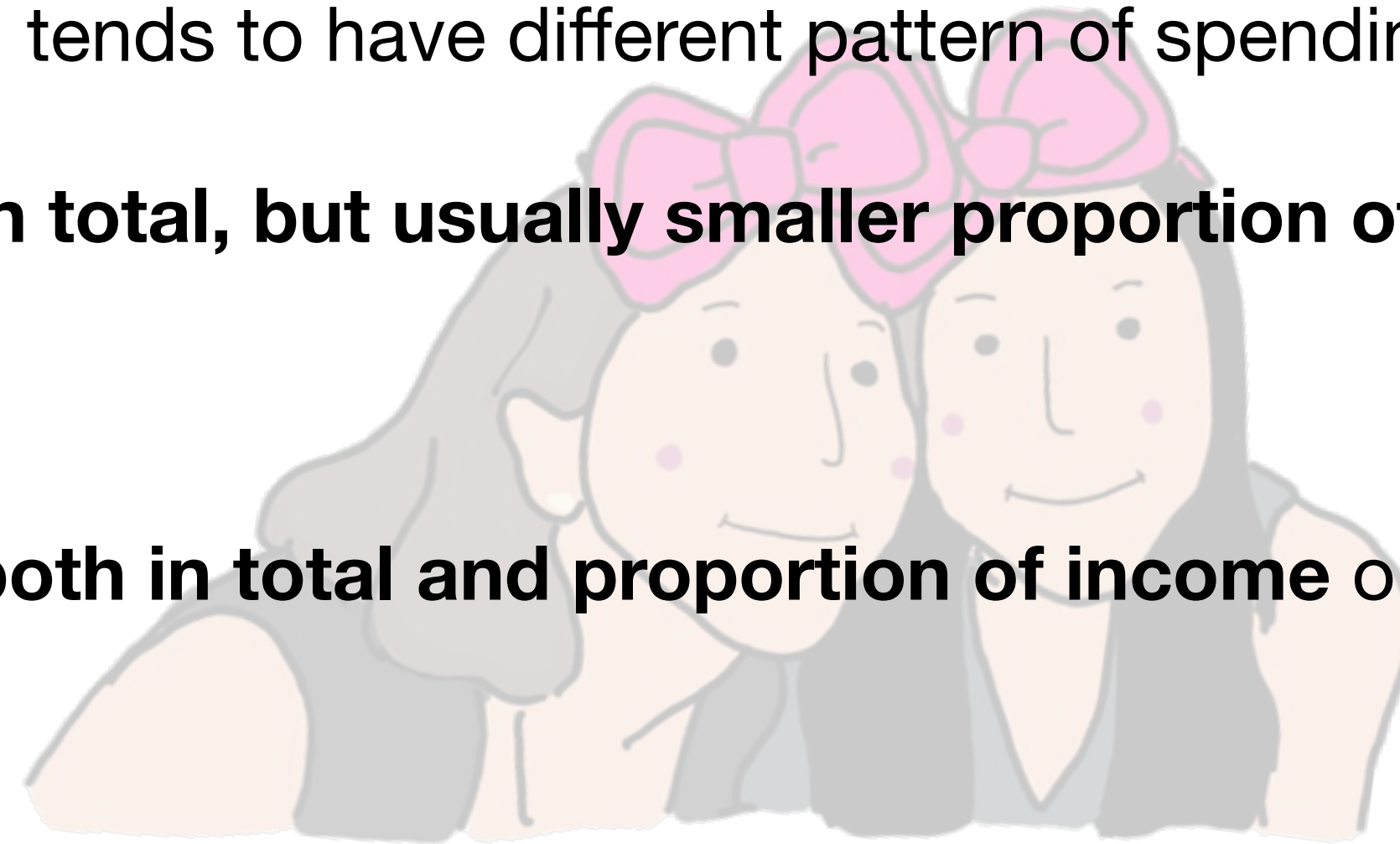
➔ **Upper middle class** : spend more, both in total and proportion of income on luxury items, consumer durables, holiday etc.

➔ **Lower middle class** : spend on **high quality** goods and services.

**2. The differences in age** : tends to have different pattern of spending

➔ **Teenager** : usually spend a higher proportion on clothing and entertainment.

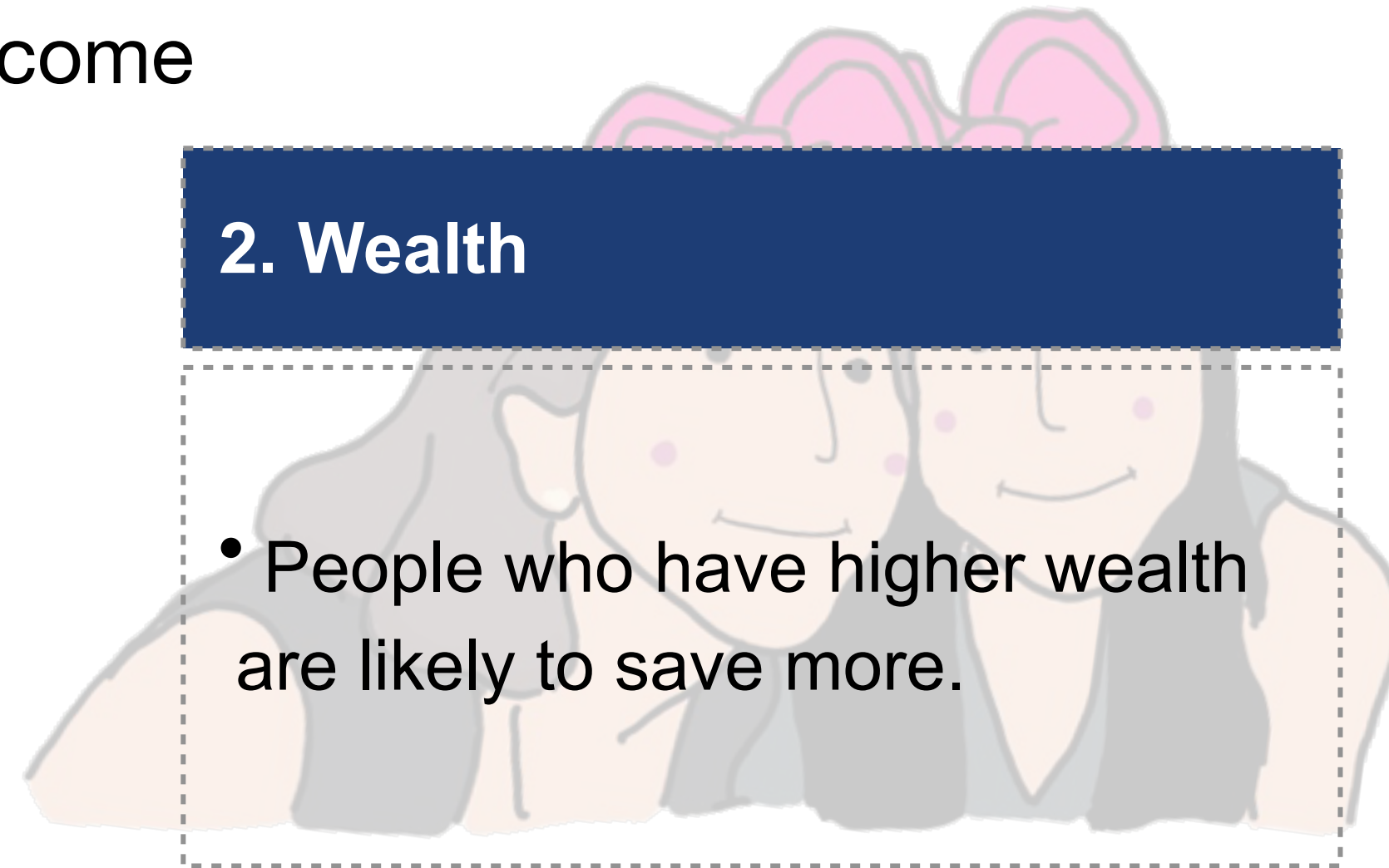
➔ **Adults without children** : usually spend a higher proportion on recreation and eating out



# 2. Factors affecting saving of households

## 2. Saving

: Saving ratio =  $\frac{\text{Saving amount}}{\text{Disposable income}}$



### 1. Income

- People who have higher income are likely to increase in saving in total amount and proportion.

### 2. Wealth

- People who have higher wealth are likely to save more.

### 3. Tax treatment of saving

- If people don't have to pay tax which is charged on interest earned on saving, people are likely to save more.

### 4. The rate of interest

- Higher interest refers to higher benefits of saving.  
➔ As a result, higher interest encourage people to save more.

### 5. The range and quality of financial institutions

- The greater wide range of saving opportunities on offer, the more likely people will find a scheme that will suit to them and save more.

### 6. Age structure

- Working Age has the ability to make money and save more.

### 7. Social attitudes

- The attitude to saving varies between countries.  
➔ People in some countries prefer to spend most of their income when they receive it

## 2. Factors affecting saving of households

### Average propensity to save (APS)

$$\text{Average propensity to save} = \frac{\text{Total saving}}{\text{Disposable income}}$$

: When people have **low income**, **APS is likely to be low ( Or not possible to save).**

: When people have **high income**, people tend to **increase in total saving** and **APS is likely to be high.**

# 3. Factors affecting borrowing of households

## 3. Borrowing

### 1. Interest

- A rise in the rate of interest will increase cost of borrowing. As a result, high interest is likely to reduce borrowing.

### 2. The availability of loans and overdrafts.

- If people can easy to access funding, the more likely people are to borrow.

### 3. Confident

- If people have optimistic in the future, people have opportunity to gain more revenue.
- ➔ As a result, People are likely to borrow more since people have potential to repay debt in the future.

### 4. Attitudes on borrowing

- Some people don't want to get into debt, therefore people are not likely to borrow money.

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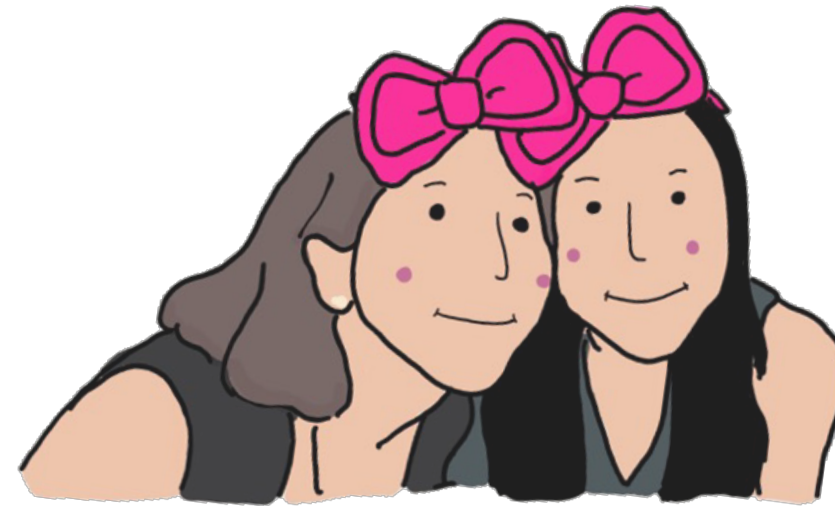
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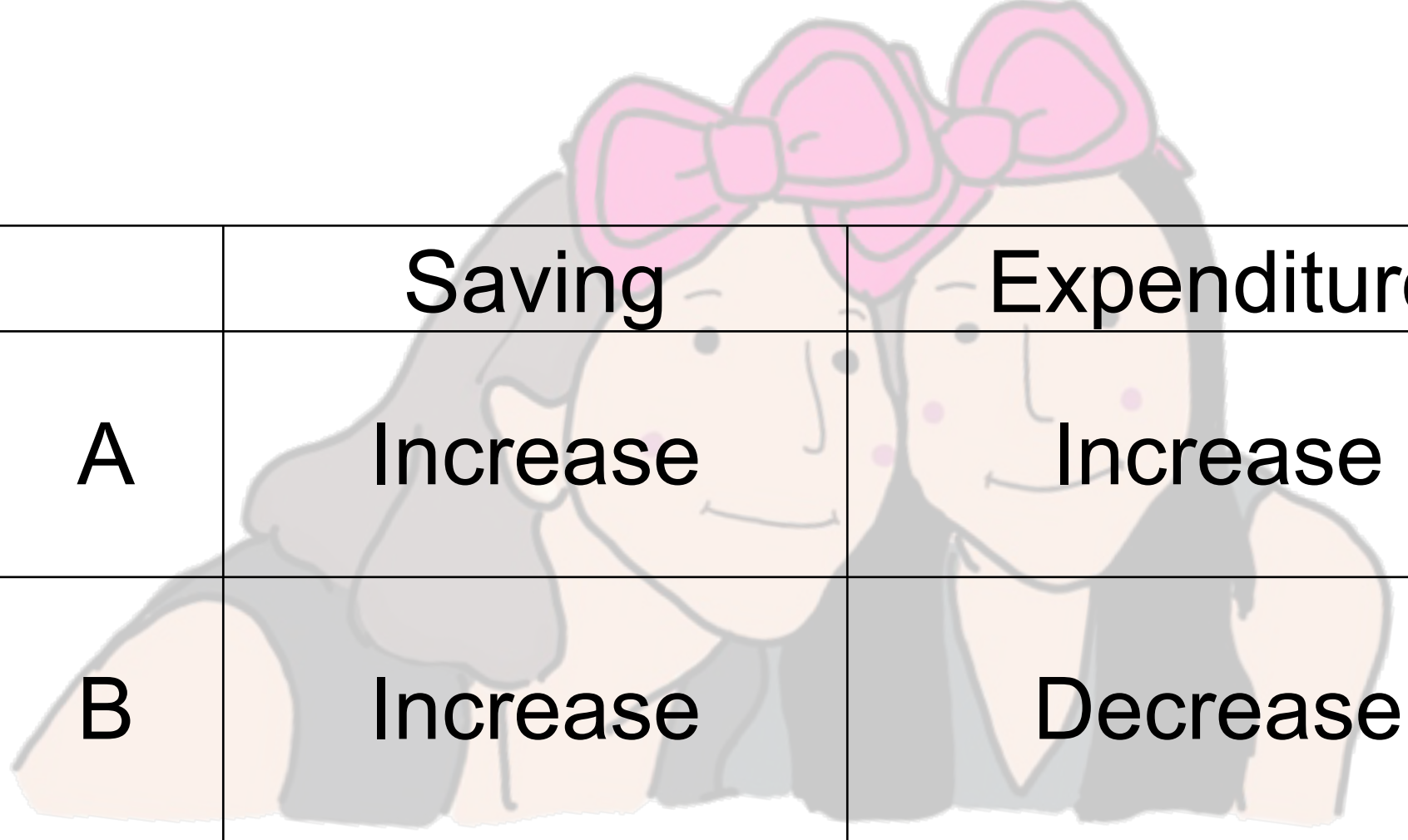


# **MICROECONOMICS - Exercise - Households**

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# Exercise: MCQ

1. If the interest rate increases, how is this likely to affect household savings and spending?



	Saving	Expenditure
A	Increase	Increase
B	Increase	Decrease
C	Decrease	Decrease
D	Decrease	Increase

# Exercise: MCQ

## 2. What can cause a rise in saving ?

- A. A fall in the rate of interest.
- B. A fall in the range of financial institutions.
- C. A fall in the rate of tax imposed on earning from saving.
- D. A fall in income



# Exercise: Essay

1. Analyse how the consumption, saving and borrowing patterns of young workers may be different from older workers ? [6]

**Command Word:**

**Analyse: examine in detail to show meaning, and identify components and the relationship between them**

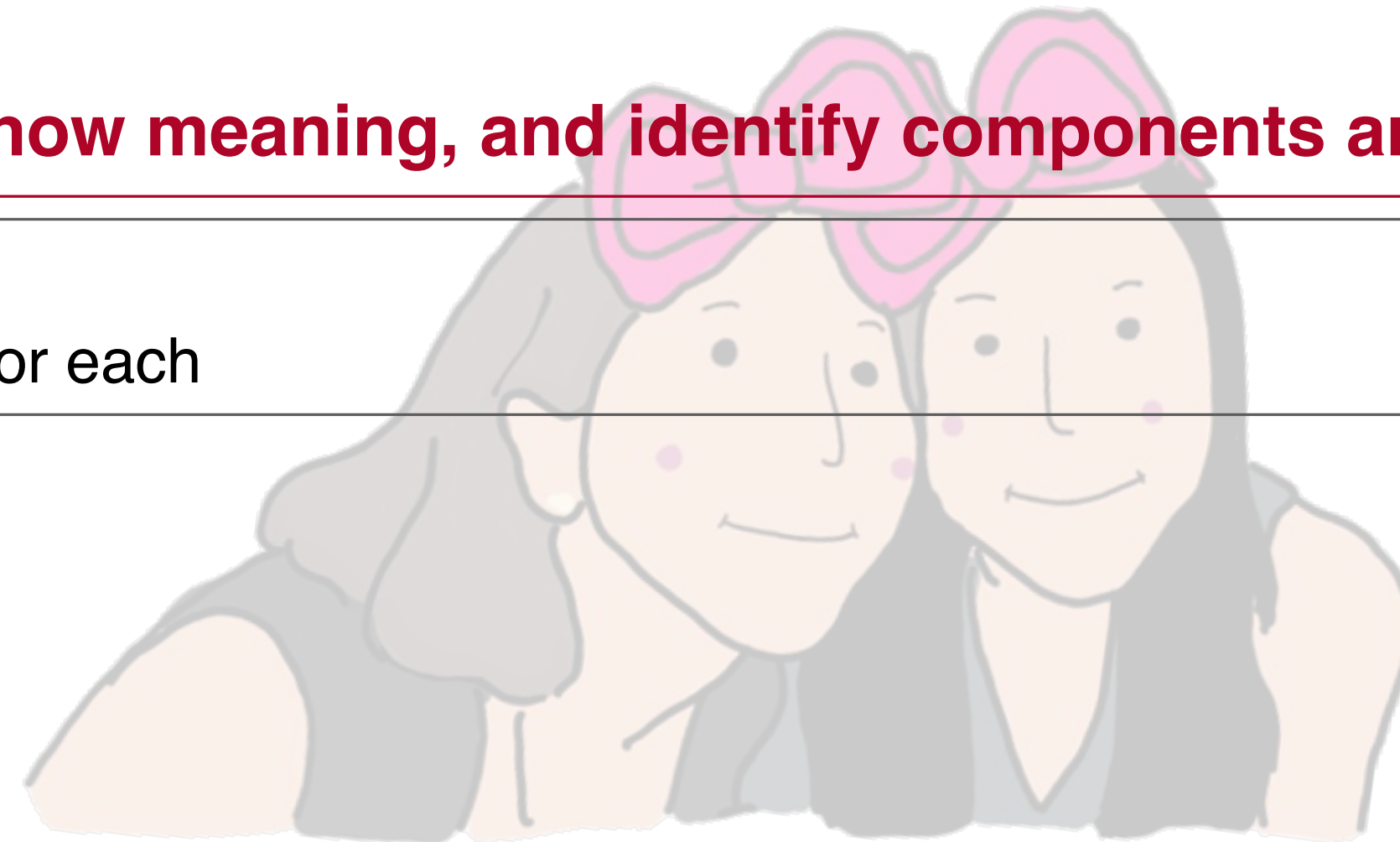
**Knockout.tips**

- Issues 3 issues + give comparison for each

- **Consumption pattern**

- **Saving pattern**

- **Borrowing pattern**



# Exercise: Essay

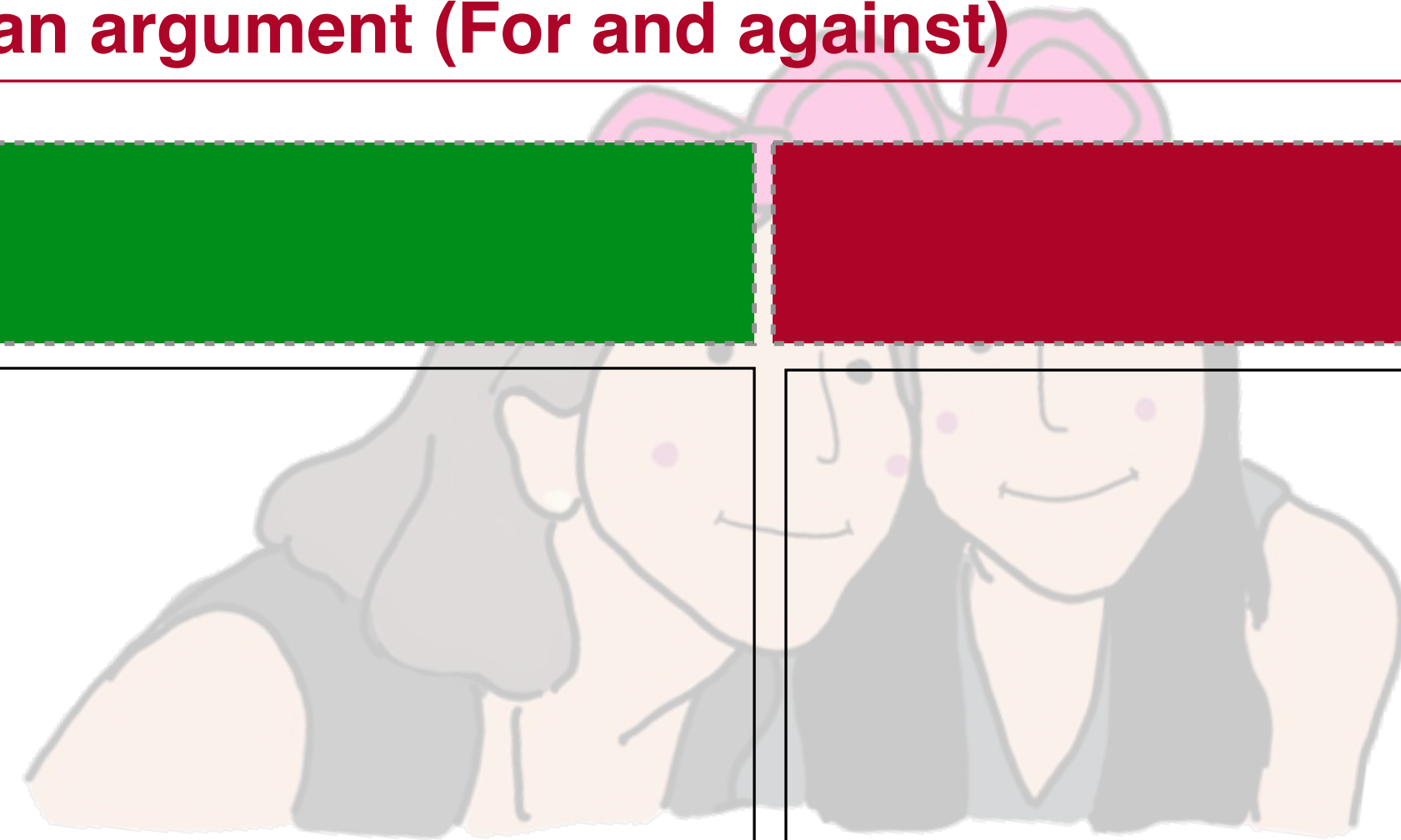
2. Discuss whether people in developed countries are likely to spend more than people in developing countries. [8 marks]

**Command Word:**

**Discuss: Set out both sides of an argument (For and against)**

**For**

**Against**



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