CHAPTER 17: Household

Key terms

- Disposable income : income after income tax has been deducted and state benefits received.
- 2. Wealth: a stock of assets including money held in bank accounts, shares in companies, government bonds, cars and property.
- 3. Rate of interest: cost of borrowing and return on saving
- 4. Average propensity to consume (APC): The proportion of household disposable income which is spent.
- 5. Consumption: expenditure by households on consumer goods and services.
- 6. Saving ratio: the proportion of household disposable income that is saved.
- 7. Average propensity to save (APS): as saving ratio, it is the proportion of household disposable income that is saved.
- 8. Mortgage: A loan to help buy a house.

1. Spending

Factors influence spending

- Disposable income (income-tax) ↑ ⇒ ability to spend↑ ⇒ spending on goods and services↑
- 2. Wealth $\uparrow \Rightarrow$ ability to spend $\uparrow \Rightarrow$ spending on goods and services \uparrow
- 3. A fall in rate of interest ⇒ save less ⇒ spend↑
- 4. Consumer confidence ↑ ⇒ higher consumer confidence ⇒ spending
- 5. **Attitude on spending** ⇒ some people love shopping ⇒ spending ↑

Income and consumption.

Average propensity to consume (APC): the proportion of household disposable income which is spent. When income increases, expenditure increases **but APC falls**

Pattern of expenditure

- Rich people → spend the large proportion of income on education and holiday.
 - → spend the small proportion of income on basic needs.
 - → have a lot of total expenditure.
 - → spend on high quality goods and services

2. Saving

Factors influence on saving

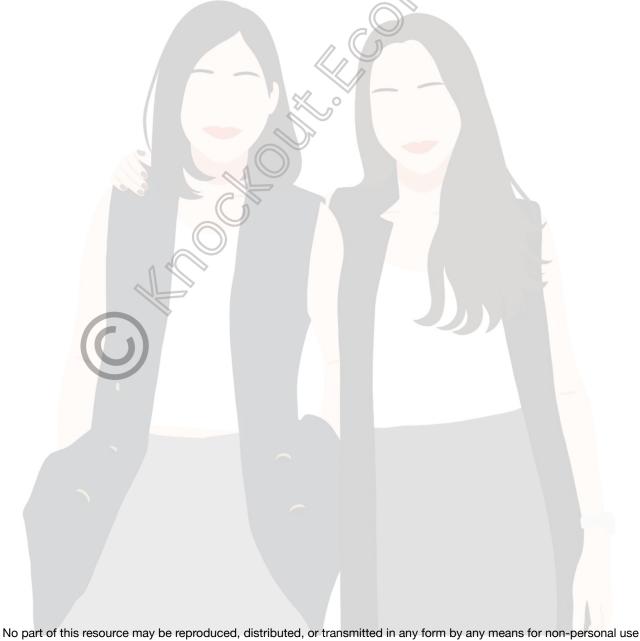
- 1. Disposable income (income-tax) ↑ ⇒ save↑
- **2.** Wealth $\uparrow \Rightarrow$ save \uparrow
- 3. Interest rate $\uparrow \Rightarrow$ save \uparrow
- Variety of saving schemes ↑ ⇒ save↑
- Age structure e.g. working age ⇒ save↑
- **6.** Attitude on saving $\uparrow \Rightarrow$ save \uparrow
- 7. Save to buy expensive item $\uparrow \Rightarrow$ save \uparrow

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3. Borrowing

Factors influence borrowing

- 1. The availability of loan and overdrafts ↑ ⇒ borrow ↑
- 2. A fall in interest rate ⇒ borrow ↑
- 3. Confidence $\uparrow \Rightarrow$ borrow \uparrow
- 4. Attitudes on borrowing
- 5. Borrow to buy expensive items $\uparrow \Rightarrow$ borrow \uparrow
- 6. Borrow because of facing financial problems ⇒ borrow ↑



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