

CHAPTER 17 : Household

Key terms

1. 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

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

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** \rightarrow spend the large proportion of income on education and holiday.
 \rightarrow spend the small proportion of income on basic needs.
 \rightarrow have a lot of total expenditure.
 \rightarrow spend on high quality goods and services

2. Saving

$$\text{Saving ratio} = \frac{\text{Saving}}{\text{Disposable income(Income-tax)}}$$

$\text{= Average propensity to save (APS)}$

Factors influence on saving

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

3. Borrowing

Factors influence borrowing

1. The availability of loan and overdrafts $\uparrow \Rightarrow$ borrow \uparrow
2. A fall in interest rate \Rightarrow borrow \uparrow
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 \Rightarrow borrow \uparrow

