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**Impact of a Change in the Savings Rate on Output**

An increase in the savings rate influences output through its effect on investment. In macroeconomic theory, particularly in the Solow growth model, higher savings allow for greater capital accumulation. This raises the productive capacity of the economy, as more resources are available to fund capital goods such as machinery, infrastructure, and technology. Over time, this leads to a higher level of output and sustained economic growth, assuming efficient allocation of savings to productive uses (Mankiw, 2021).

Nevertheless, in the short term, a higher savings rate may result in reduced consumption, since households are allocating more income toward savings. Because consumption comprises a large share of aggregate demand, a decline in consumption can reduce overall demand and lower GDP in the short run. This reduction in output may persist unless it is offset by a corresponding increase in investment spending or expansionary fiscal or monetary policies (Krugman & Wells, 2018).

In the long run, higher savings promote economic development by enhancing investment in capital and innovation. However, if the financial system is underdeveloped or investment opportunities are limited, high savings may lead to underutilized funds, weakening the positive effect on output. Therefore, the impact of savings on output depends not only on the savings behavior of households but also on how well those savings are channeled into productive investment (Blanchard & Johnson, 2017).

**Conclusion:** The computations show that while Amagre runs a trade deficit, its foreign investments generate enough income to boost its GNP above its GDP. This distinction is important for evaluating both domestic production and income flows tied to international economic activity.

**References**

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