Saving function

From saving Function $S= Y- C$ prove that $S = -a+ bY$

$S = Y-C$

$S= Y-(a+ bY)$

$S= Y- a- bY$

$S= - a +Y(1-b)$ MPS = $b= 1-b$

$S= - a + bY$

Factors Affecting Household Consumption and Saving

- **The following points highlight the top factors affecting household consumption and saving. The factors are:**

1. **The Level of Income and its Distribution**
2. **Consumer's Expectations**
3. **The Rate of Interest**
4. **Tastes and Preferences**
5. **The Stock of Wealth**
6. **Existing Stock of Durable Goods**
7. **Taxes**

The Level of Income and its Distribution

Consumption depends largely on income. The higher income of an individual the more it is likely to spend on consumption, people with high incomes would normally spend’ more of consumption goods than people with low incomes

Consumer’s Expectations:

- Consumer expenditure is largely influenced by expectations of the future. Three main factors which bear relevance in this context are expectations of inflation, unemployment and income.

Price Expectations:

- If people expect that an inflation is likely to occur in near future they tend to purchase durable goods or half-durable whose prices may rise after some time.
-
- If people expect deflation to occur they will wait for the price to fall before making purchases.

- Moreover, people tend to purchase more of certain essential commodities like food articles than they normally do if their prices are likely to rise in future.

The Rate of Interest:

- The rate of interest is the reward for saving. Normally people save more when the rate of interest is high than when it is low. Thus people can be induced to save more by offering a high rate of interest.

- If the rate of interest rises people may curtail their consumption to save more. Thus the rate of interest and consumption spending are inversely related.

Tastes and Preferences:

- People's attitude towards savings is affected by tastes. If this context we may refer to time preference .
- Time preference refers to people's preference of current over future consumption.

The Stock of Wealth:

- People save in order to add to their stock of wealth. Saving is a flow while wealth is a stock. If something happens to reduce wealth (such as a capital loss) people may save more to restore their wealth.

- If something happens to increase their wealth suddenly (such as a capital gain) people may reduce their rate of saving as they feel less need to add to their now-larger stock of wealth. Thus, sudden changes in wealth may alter consumption plans or decisions

Existing Stock of Durable Goods:

- The consumption of non-durable goods such as food and clothing cannot be postponed indefinitely . But the purchase of durable goods can easily be deferred

- Normally during war or emergency durable goods are difficult to purchase because they are not readily available.

- Since the expenditure on non-durables remains more or less steady at all times, purchases of durable goods, which are volatile, can cause sharp shifts in total consumption spending

Taxes:

- The fiscal policy of the government is also likely to exert some influence on aggregate consumption.

- If the government raises the level of taxes people’s disposable income will fall.

- This will lead to a fall in both consumption and saving.

The most important hypotheses of the consumption function

- 1- Disposable income
- Disposable income is the real determinant of income, not national income, excluding taxes
- 2- MPC is less than APC

3. MPC more than 0 and less 1

4. APC It decreases with each increase in income

Consumption and Consumption Expenditure

- Consumption in economics the use of goods and services by households.
- consumption expenditure which is the purchase of goods and services for use by households

Saving

- Saving is the Part of the disposable income that is kept from spending, and kept for the future.

Macroeconomic equilibrium

- **Methods of Macroeconomic Equilibrium**

1- Aggregate Demand **Equals** Aggregate supply

- 2- Injection **Equals** Leakage

- S+T+M= I+G+X

- Injection means the introduction of income into the flow. When households and firms borrow savings, they constitute injections. Injections increase the flow of income.

\- Injections can take the forms of

- Investment
- Government spending
- exports.

leakage

- leakage refers to drop capital or income
- Imported goods are sometimes referred to as a source of "leakage" because they can have the effect of transferring income that was earned in one country to another country.

  leakage can take the forms of

- Saveing
- Taxes
- Import

increase and decrease the income

- what are the factors that affect to increase and decrease the income in any society
- Increase the income (I,G.X)
- Decrease the income (S,T,M)