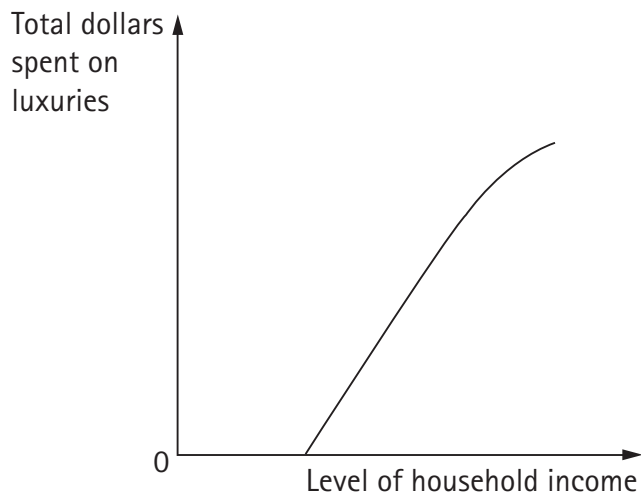


eLearneconomics: Changing household consumption patterns (1)

Student response _____

Examine the pattern of household spending shown for each graph and describe the trend shown by the graph. Provide one reason for the changes in spending on these goods as household income increases.

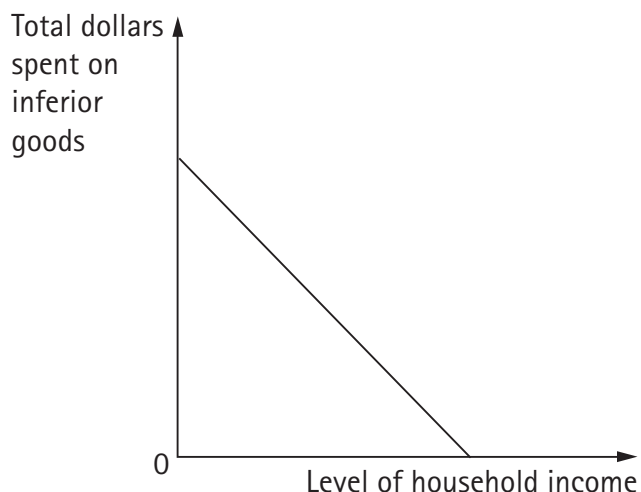
Graph one



(i) Trend: _____

(ii) Reason: _____

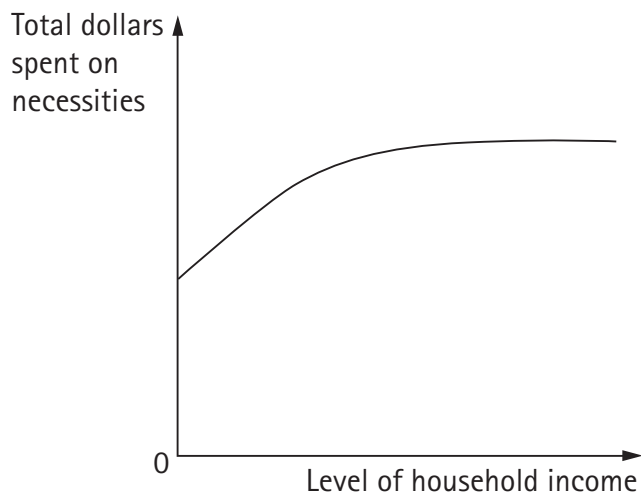
Graph two



(i) Trend: _____

(ii) Reason: _____

Graph three



(i) Trend: _____

(ii) Reason: _____

eLearneconomics: Changing household consumption patterns (1a)

Solution

For Graph one the trend is that at low levels of income there is no income spent on luxuries. As household income increases so does spending on luxuries. The reason is that at low levels of income, there is no household spending on luxuries because households are unable to afford it. As income increases, so does spending on luxuries because households can now afford to buy more than just necessities.

For Graph two the trend is that as income increases the total dollars spent on inferior goods will decrease. The reason is that households are able to afford better quality or normal goods. Households change from buying budget brands to better quality goods and services.

For Graph three the trend is that as income increases the total dollars spent on necessities increases a small amount. The reason is that the amount spent on necessities does not increase that much since households will spend their income on other goods. There is only so much you need to spend on food/clothing/housing. Household spending on necessities will increase slightly because households buy better quality clothes/food/housing.

eLearneconomics: Changing household consumption patterns (2)

Student response _____

The table reflects a typical household's level of spending for each item as their income increases over time.

A typical family's spending as income increases			
Category or Item	Before	Now	Future
Food	24%	16%	15%
Housing	39%	29%	25%
Clothing	17%	18%	20%
Savings	0%	10%	20%

- Why does the percentage of the family's spending on housing keep decreasing even though they pay the same amount on their mortgage?

- Explain the changes expected for each category or item as their household income increases.

eLearneconomics: Changing household consumption patterns (2a)

Solution

The percentage of the family's spending on housing keep decreasing even though they pay the same amount on their mortgage because even though the mortgage payment is fixed, as income rises, the amount as a percentage falls relative to total income/the fixed mortgage payment falls as a percentage of income.

The changes expected for each category or item as their household income increases are the following.

Food: is expected to fall relative to total income because there is only so much you can spend on food/income will be spent on other goods.

Housing: Even if the mortgage (housing) is fixed, it will fall further relative to higher total income / the same amount spent on the mortgage will be a smaller percentage of total spending.

Clothing: They expect to spend relatively more on clothes because they can be more of a luxury item / they will buy better quality.

Savings: Savings will increase after basic needs and most wants are met.