

3.2 Households

Name: _____ Class: _____ Date: _____

Total: 16 marks

KEY WORDS saving • borrowing • household • income • confidence

Objective

Build the skills to answer exam questions on **households** – **spending, saving and borrowing**, and what influences these choices.

You must be able to:

- define saving and borrowing
- explain how income, interest rates and confidence affect household choices
- analyse a change in household spending or saving

1 Key knowledge and worked examples

■ Household choices

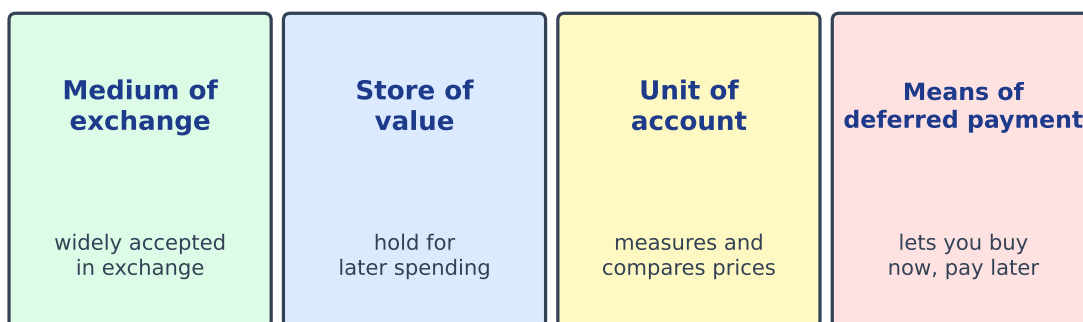


Three things shape these choices: income, interest rates, confidence

- **Saving** : income not spent now. **Borrowing** : spending money you do not yet have, repaid later.
- **Income** up → spend and save more.
- **Interest rates** up → saving more rewarding, borrowing dearer → saving rises,

borrowing falls.

- **Confidence** high → spend and borrow more; worried → save more.



Explain the relevant function; inflation can reduce purchasing power

Households rely on money's functions – a medium of exchange to spend and a store of value to save

Answer shapes: K + App + An + Ev (a justified judgement, for discuss questions).

2 Practice

2.1 Define the term *saving*. [2]

2.2 State two things that influence how much a household saves. [2]

2.3 State the effect of a rise in interest rates on household borrowing. [1]

3 Exam-style questions

3.1 A rise in interest rates is most likely to: [1]

- ☐ A raise borrowing and lower saving
B lower borrowing and raise saving
C raise both borrowing and saving
D have no effect

3.2 Explain why a household might save more when interest rates rise.

[4]

3.3 Analyse how a fall in consumer confidence would affect household spending and saving.

[6]

Solutions

IGCSE Economics answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

Each answer shows the steps, then the **result**.

2.1

- **saving** is the part of income that is **not spent now** (K)

2.2

- any **two** of: **income** / **interest rates** / **confidence** (K, K)

2.3

- higher interest rates make loans dearer
- **borrowing falls** (K)

3.1 B

- higher interest rates **lower borrowing** and **raise saving** (K)
- A is the opposite; C and D are false

3.2

- a higher interest rate means savers **earn more** (K)
- saving becomes more rewarding, and borrowing costs more (An)
- households save a **larger share** of their income (An)

3.3

- confidence is a key influence on household choices (K)
- if people fear losing jobs, they spend less and borrow less, and save more as a **safety buffer** (An)
- falling confidence **lowers spending** and **raises saving** (which can slow the economy) (An)