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.

Medium of exchange	Store of value	Unit of account	Means of deferred payment
widely accepted in exchange	hold for later spending	measures and compares prices	lets you buy now, pay later

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)