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

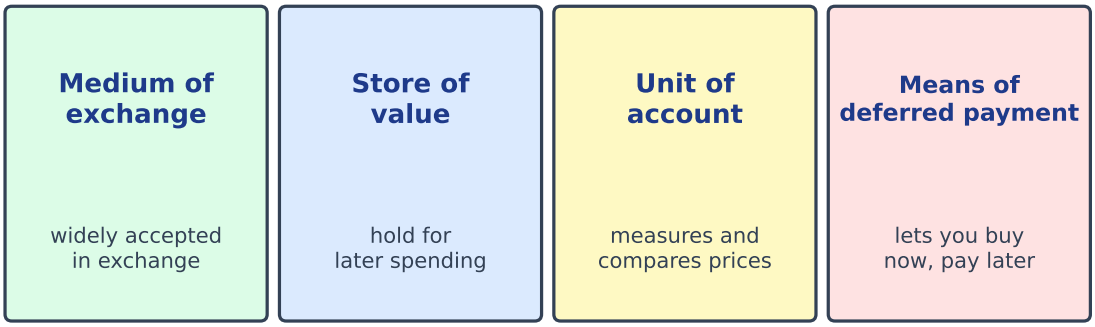
Household choices

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]