Exercise walk-through

Households ▪ 3.2

eXercise

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

Method — Household choices

- **Saving 储蓄**: income not spent now. **Borrowing 借贷**: spending money you do not yet have, repaid later.
- **Income 收入** up → spend and save more.
- **Interest rates** up → saving more rewarding, borrowing dearer → saving rises, borrowing falls.
- **Confidence 信心** high → spend and borrow more; worried → save more.

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

Method — Household choices

Households decide how much to spend, save and borrow

Method — Household choices

Medium of exchange

swap it for any good

Store of value

keeps its worth over time

Unit of account

measures and compares prices

Means of deferred payment

lets you buy now, pay later

Practice 2.1 ▪ 2 marks

Define the term *saving*.

Solution 2.1

Worked steps

the part of income that is not spent now (2 for a clear definition; 1 for a partial idea).

Practice 2.2 ▪ 2 marks

State two things that influence how much a household saves.

Solution 2.2

Method: Household choices

Worked steps

any two of: income; interest rates; confidence $(1 + 1)$.

Practice 2.3 ▪ 1 mark

State the effect of a rise in interest rates on household borrowing.

Solution 2.3

Method: Household choices

Worked steps

borrowing falls (1).

Exam-style 3.1 ▪ 1 mark

A rise in interest rates is most likely to:

A raise borrowing and lower saving

B lower borrowing and raise saving

C raise both borrowing and saving

D have no effect

Solution 3.1

Method: Household choices

A raise borrowing and lower saving

B lower borrowing and raise saving ✓

C raise both borrowing and saving

D have no effect

Worked steps

B. Higher interest rates lower borrowing and raise saving.

Exam-style 3.2 ▪ 4 marks

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

Solution 3.2

Method: Household choices

Worked steps

[4] K 1 + An up to 3 — a higher interest rate means savers earn more on their money → saving becomes more rewarding → at the same time borrowing costs more, so people borrow less and keep more → so households save a larger share of their income.

Exam-style 3.3 ▪ 6 marks

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

Solution 3.3

Method: Household choices

Worked steps

[6] K/App/An — confidence is a key influence on household choices → if people fear losing their jobs or expect bad times, they spend less on non-essentials and borrow less → instead they save more as a safety buffer → so falling confidence lowers spending and borrowing and raises saving (which can slow the economy).