IGCSE ECONOMICS • EXERCISE SHEET

3.2 Households

Name: ______________ Class: _________ Date: ___________ **Total: 15 marks**

Objective

Build the skills to answer exam questions on **households 家庭—spending, saving and borrowing 消费、储蓄与借贷**, 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 Worked examples

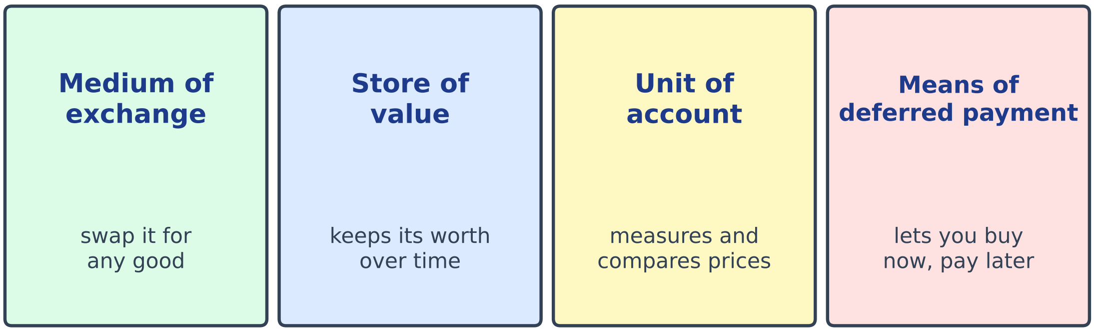
■ Household choices

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

Image: source

- **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.



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]

4 Go further

You are now ready for the real exam questions on this subtopic. Open the **3.2 Households** past-paper sheet in the Library, or try these in **Practice mode**:

- 0455/11 N25 —Q11 (households)
- 0455/11 J25 —Q11 (saving and borrowing)
- 0455/13 J25 —Q10 (household spending)

Solutions

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

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

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

2.3 borrowing falls (1).

3.1 B. Higher interest rates lower borrowing and raise saving.

3.2 *[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.

3.3 *[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).