Consumption (C)

# Starter: Discussion Question

**Instructions:**

* Individually consider the below questions
* Discuss your thoughts with a partner
* Share your ideas with the class

*What do households spend money on?*

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| --- |
| Note Space: |

# Presentation 1 – Intro to Consumption

Complete the activities below so as to have a complete set of notes:

**Definition:** *Consumption*

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This includes demand for durables e.g. audio-visual equipment and vehicles & non-durable goods such as food and drinks which are “consumed” and must be re-purchased.

*Stat:*Consumption made up 66% of UK GDP in 2018

**Definition:** *Average Propensity to Consume*

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*Equation:*

*Example:*Sarah’s wage after allowing for tax is £500 per week; of this, she spends £450 per week in total.

Sarah’s APC is \_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Definition:** *Marginal Propensity to Consume*

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*Marginal:*refers to incremental change to one variable from an additional unit to another. **​**

*Equation:*

*Example:*Sarah’s wage after allowing for tax, rises to £600 per week; of this, she now spends £500 per week in total.

Sarah’s MPC is \_\_\_\_\_\_\_\_\_\_\_\_\_\_

# Maths Task: MPC and APC calculations

**Instructions:** Complete the table by calculating the APC and MPC for the below individual at their different weekly income

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| --- | --- | --- | --- |
| **Weekly Income after tax (£)** | **Weekly spending (3)** | **APC** | **MPC** |
| 0 | 0 |  |  |
|  |
| 100 | 100 |  |
|  |
| 200 | 180 |  |
|  |
| 300 | 240 |  |
|  |
| 400 | 280 |  |
|  |
| 500 | 300 |  |
|  |

# Presentation 2 – Determinants of Consumption

Complete the activities below so as to have a complete set of notes:

**Elaborate:** Elaborate in the below key determinants of consumption

*Disposable Income:* More income after tax gives households more scope to consume as they can buy more goods

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*Wealth:*Increased wealth leads to a wealth effect, a change in consumption due to a change in the wealth of an individuals (Either positive or negative)

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*Consumer Confidence/Expectations:*If confidence about future income is low, an individual is unlikely to go ahead with major purchases, cutting C.

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*Interest rates:*Lower interest rates will lead to higher consumption

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*Demographics:*Young/elderly typically have a high APC

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*Distribution of income:*Those on the lowest incomes spend a greater proportion of them as they have lower ability to save

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*Income tax level:*lower levels of income tax mean more income after tax to be spent on consumption

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*Unemployment rates:*More unemployment means lower income and less confidence

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# Article task: Next and Consumer confidence

**Instructions:**

* Read, highlight and annotate the article, making notes to answer the key discussion question
* Discuss as a class

**Article:**

*Next profits up as consumer confidence returns*

Next has reported a strong rise in half-year profits as higher house prices and the continuing economic recovery feed into household spending.

It said pre-tax profits for the six months to July rose 19.3% to £324.2m, compared with £271.8m a year earlier. Overall sales were 10.3% stronger than a year ago, Next added.

Next Directory sales grew 16.2% to £694.3m from £597.6m a year earlier. Next Retail sales rose by 7.5% to £1.07 bn from £1 bn.

The retailer said the improving economy, low interest rates, increasing availability of credit, less discounting on the high street and much better summer weather had all contributed to an improvement in its sales performance. "In addition, an improved housing market has helped our home business," it added.

Next said it expected pre-tax profits in 2015 to be between 11% and 17% higher at between £775m and £815m.It forecast sales growth of 10% in the third quarter and 4% in the three months to Christmas.

The retailer acknowledged its sales forecast for the fourth quarter "may look unambitious" but said the number needed to be seen in the context of the "very strong sales performance in the final quarter last year".

Next shares were 2.58% lower to 6980p in early trading on the London Stock Exchange

**Discussion Question:**

*How does higher consumer confidence affect spending in the economy?*

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# Presentation 3 – The Relationship between Savings and Consumption

Complete the activities below so as to have a complete set of notes:

**Definition:** *Savings*

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The level of saving in an economy has a direct impact upon the level of consumption

In economics, any disposable household income not used for consumption is said to have been saved

**Definition:** *Marginal Propensity to Save*

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*Equation:*

**Key Notes:** *Determinants of Savings*

*Interest rates:*Higher interest rates increase the incentives to save as the reward is greater

*Confidence:*If individuals and workers are nervous about the future, they may be inclined to save more of their income in the event of wage cuts, wage freezes or redundancy

*Inflation:*If prices are rising quickly, then the real value of savings is eroded, so the incentive to save reduces

# Assignment

**Section B**

**Extract 1: Aggregate demand**

At the time of the economic crisis in 2008 and 2009, the savings ratio increased significantly from just over 2% to nearly 9%. Consumer expenditure fell, following falling real incomes, even though interest rates were reduced to just 0.5%. Investment has remained low since 2009 because confidence has been low – partly because of the crisis in the Eurozone, which has resulted in slow growth in those countries. Despite a 25% fall in the value of sterling, the UK’s trade balance remained in deficit and between 2011 and 2012 the deficit increased from £23bn to £37bn.

Although house prices fell sharply in 2009 and again slightly in 2011, there is an expectation that they will increase from 2013.

**Question:**

With reference to the extract, assess two factors which influence consumer expenditure.

[10]

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| **Planning Grid: Aim = 4 paragraphs - 2 KAA points (6); 2 Eval points (4) with a conclusion**  |
| **KAA Point 1 = signpost key point** |  |
| Application |  |
| Main concept & diagram |  |
| **Eval Point 1 = relate to your earlier point & re-read the title** |  |
| Context / evidence |  |
| **KAA Point 2 = signpost key point** |  |
| Application |  |
| Main concept & diagram |  |
| **Eval Point 2 = relate to your earlier point & re-read the title** |  |
| Context / evidence |  |