HOW TO USE THIS BOOK

ACTIVE LEARNING APPROACH

The only way to learn to hit an overhead smash in tennis or to speak a foreign language is through repeated practice. The same is true for learning economics. Throughout this book you will find new ideas introduced with simple examples, followed by applications showing how they work in familiar settings. The features within each chapter are designed to both test and reinforce the understanding of these ideas.

LEARNING OBJECTIVES

Each chapter starts with a list of learning objectives, highlighting material to be covered. After working through the chapter, check the learning objectives to make sure you can answer all the questions posed. This way, you can easily identify topics that require a little more revision. See Chapter 4, p.108.

Learning objectives

After working your way through this chapter, you should be able to answer the following questions.

1. What has happened to the household savings ratio in Australia?
2. What is the relation between savings and wealth?
   - How are stocks and flows related?
3. For what reasons do people save?
4. What does national saving mean?
   a. What has happened to the components of national saving in Australia?
   b. How is the government's budget related to national saving?
   c. Is a low rate of household saving necessarily a problem?
5. How are investment and capital formation related?
6. What role does the real interest rate play in determining savings and investment?
   a. How is the market for savings and investment affected by technological change?
   b. How is the market for savings and investment affected by the government's budget?

SYNOPSIS

This is an important feature which has several functions. It provides an overview of the material to be covered in the chapter, shows how it links to topics in other chapters, and places it in context by relating it to everyday situations. See Chapter 4, p.109.

Synopsis

In Chapter 3, we listed the need to achieve a balance between current consumption and savings as an important indicator of good macroeconomic performance. Since savings involves reserving resources for future use, this balance involves a consideration of the trade-off between current needs and looking ahead to the possibility of future prosperity. Recent debate in a number of countries, including Australia, shows a widespread concern that the optimal balance between savings and consumption is not being achieved. However, it is difficult to know exactly what this optimal balance is. Nevertheless, many commentators look to very low savings made by the household sector (and a related increase in household debt) as an indication that there exists a problem of low savings that will resonate for generations to come. The reality, however, is much more complicated than this.

In this chapter, you will learn what motivates people to save and the possible reasons why people do not seem to be saving as much as they used to. Does this mean there is a macroeconomic savings problem? Perhaps, but probably not to the extent that many commentators argue, because households are not the only sector in the economy that