

Factors affecting consumption

Background:

This exercise is to consolidate the key influences on consumption and familiarise students with key data. Some of this overlaps with the exercise on the impacts of a change in consumption, hence reinforcing some of the linkages.

Instructions:

Before the students see any of the data, ask them to brainstorm in small groups or pairs what they think are going to be the key drivers of consumption in the UK. If this is following straight on from the consumption as a percentage of GDP exercise, they may already have begun to think about this.

Put all the ideas somewhere where they can all be seen (like the whiteboard) and have a short open discussion about which ones they think are likely to be the most important.

Then give them the data. Ask them whether the data supports the brainstorming exercise and ask them in each case:

- 1) What the links are between each factor and the percentage change in consumption (make sure that they are clear that the consumption graph is a percentage change one) in theory.
- 2) How strong the relationship seems to be in practice.
- 3) What do they now think are the 2-3 biggest influences on consumption?

Depending on how things go, a discussion of direction of causation might be appropriate at some point.

Follow-up:

Some of these links may help to reinforce some of the points made:

- 1) Factors driving consumption in the US – analyst picks up on some of the factors that students will have discussed.

<https://www.youtube.com/watch?v=DAfDZ7VNR8E>

- 2) Same for the UK, this resource is really good, however it is 2010, so rather dated now. Loads of factors that are relevant to the discussion, so might be worth it.

<http://www.bbc.co.uk/news/business-10941894>

- 3) Attitudes towards consumption, saving and debt

- (i) China: Looking to increase the proportion that it consumes (can link back to exercise on C as a % of GDP):

<http://www.bbc.co.uk/news/business-25309669>

- (ii) Elsewhere – 3 countries' attitudes towards debt:

<http://www.bbc.co.uk/news/business-23334314>

- 4) If you haven't used it elsewhere, a clip that touches on interest rate hierarchies and the link (or otherwise) between base rates and market rates. From the financial crisis, but makes the point.

<http://www.bbc.co.uk/news/business-11246271>