



Course Learning Outcomes for Unit V

Upon completion of this unit, students should be able to:

5. Construct the aggregate expenditure and demand model of the macro economy.

Reading Assignment

Chapter 9:

Aggregate Expenditure and Aggregate Demand

Chapter 10:

Aggregate Supply

Unit Lesson

Savings Rates in China: Why the Big Difference, and What are the Implications?

In our lesson for Unit V, we study aggregate demand. Have you considered the rate of savings for various countries and the possible implications? After 20 years of going down, the personal saving rate in the United States has increased from the start of the latest "recession," and one needs to consider what may happen during the recovery. The "Empirical Analysis of the Saving Rate in the United States" is quoted below:

The U.S. saving rate has historically been much lower relative to the saving rate of Japan and the 12 nations that make the Euro-zone. For example, between 2000 and 2004 the Euro-zone countries saved 10.5% of their disposable income while Japanese saved 6% of theirs. The saving rate for the U.S. over the same period was only 3.2%. In fact, it was consumers who carried the U.S. economy out of recession in the 80s and 90s and for over two decades United States was known to be a nation of "shop until you drop." Since the early 1980s U.S. personal saving rate declined steadily from a high of 10.9 percent in 1982 to a low rate of 1.4 percent in 2005. This downward trend represented a dramatic change in the behavior of personal saving rate because during the preceding three decades, the personal saving rate had experienced an upward trend. While in the 1950s the average personal saving rate was 7.94 percent, the 1960s and 1970s had witnessed the average personal rates climb to 8.29 and 9.59 percent, respectively. More recently, however, and especially around the onset of the 2007 recession, dubbed the "Great Recession," personal saving rate seems to have staged a turnaround. It climbed systematically, registering at 2.1, 4.1, 5.9, and 5.7 percent for 2007, 2008, 2009, and 2010 respectively. (Amavati, Adilov, & Dilts, 2013, para. 3)

What is even more curious is to examine the savings rate in China over the same time. How might someone explain that the Chinese have had the highest savings rate? These savings rates have attracted much research to explain the possible implications. China has achieved savings in recent years of 50% and before that averaged 40% (Eckaus, 2014). Might you be astounded? Why might the Chinese consumers be saving, while the U.S. consumer is credited for spending its, and much of the world's, way out of a recession?

Often the U.S. is criticized for saving too little collectively, while the Chinese are criticized for spending too little. As one examines aggregate spending, which is opposite of aggregate savings, this means that Chinese consumers have a declining rate of consumption. This is contrary to the stated Chinese government's wish, as stated by economists and the government, to increase consumption.

There is the argument that there is a "forced" savings system in China, as noted by government programs that reward investment by taxation policy and economic structures, such as lending rates that encourage investment and not consumer spending. In China, government retirement programs are set up to reward

contribution, and this an indirect savings tool. Another way that savings are encouraged is by the non-distribution of corporate profits. Profits are being reinvested and not returned to shareholders. The policy of the banking system is to encourage loans for reinvestment and not loans to individuals.

Which is better, the low savings rate and high consumption of the U.S., or the low consumption and high savings rate of China? As budding economists, we will let you decide. The key is to become informed and note the various trade-offs that are necessary. Government, with the advice of economists, must decide economic policy that creates the most good for everyone. After leaving this course, be aware of these trade-offs as you work and as you participate as a voter.

References

Amavati, H., Adilov, N., & Dilts, D. A. (2013). Empirical analysis of the saving rate in the United States. *Journal of Management Policy and Practice*, 14(2), 46-53. Retrieved from http://www.na-businesspress.com/JMPP/SamavatiH_Web14_2_.pdf

Eckaus, R. S. (2014). Forced saving in china. *The China Quarterly*, 217, 180-194. doi:<http://dx.doi.org/10.1017/S0305741013001446>

Suggested Reading

Click [here](#) for the Chapter 9 Presentation in PowerPoint form. Click [here](#) to access a PDF version of the presentation.

Click [here](#) for the Chapter 10 Presentation in PowerPoint form. Click [here](#) to access a PDF version of the presentation.

Learning Activities (Non-Graded)

Review the online tutorial below [link to MyCourseTools tutorial of same name], which focuses on specific topics in Unit V.

Aggregate Demand

https://media.pearsoncmg.com/ppc/pls/pls_my coursetools/fulfillment/mct_1256689785_csu/prin_macro/redire ct_01_pm_l10_t02.html

Non-graded Learning Activities are provided to aid students in their course of study. You do not have to submit them. If you have questions, contact your instructor for further guidance and information.