Economics question answer critical thinking

Finance, Investment

Money is an economic igniter that has a powerful effect on spending and saving. Money makes economic transaction more efficient, therefore individual are better off with the money than without it. Therefore, from my personal perspective, I think am better off saving money than spending. This is so because I believe saving money is making money. For instance, last year I made around 11, 000, I have 6, 500 in savings and I spent the rest at the age of 20. I saved more money in order to secure a better future. Spending money is a daily routine because we have to consume some money on basic needs and improve living standard. However, saving makes me feel better because it ensures safety from uncertainties such as lack of job, theft and medical issues among others. By saving I receive an increased money because of the interest rate I receive. Meanwhile, I better off by saving money because I get a motivation for increasing my earning.

On the matter of making, the economy better off, Spending and saving money has brought the great debate among economists. This is so because some think spending keeps the economy growing while others think saving is the one that contribute to the economy. Those who support spending think that it enables the consumer to increase their purchases, which in turn help corporate to make a profit and attract job opportunities (Trent, 2009). In order to promote economic growth individuals are expected to spend their money on purchasing goods. However, I think saving money also contribute to the growth of the economy because the money saved; especially in the bank can be loaned to investors. After the financial crisis of 2007, I think saving money is economical despite what the paradox of thrift demonstrates. Individual mainly believes that saving is good and more saving is better.

The paradox of thrift believes that if every household increased its saving the result could be less income for the entire economy (Michl 57). This is so because increased saving could actually lower savings for all households. The paradox of thrift believes that if an individual spends money during the financial crisis, the demand for commodities will decrease and in turn, the economic growth will decline causing economic problems such as lack of employment and failed businesses. This makes sense literally on the ground that when individual stop spending instantly the economy would indeed downturn. This means when demand decreases, the price of goods decreases causing individual to spend more money. However, this contradicts individual believe that they will be better off when they increase their savings than spending.

According to Boyes and Melvin (217), saving increase income because saving money does not remove it from the economy but facilitate investment. This is so because when individuals put money into saving account, the bank in turn lends out to investors. When individuals save money, the banks receive resources to lend to businesses that use these resources to employ more individual, expand their business and innovate new products. This is so because saving is necessary before there can be any investment. Therefore, we expect a greater demand for investment funds to induce higher saving and greater economic growth (Gans 123).

Therefore, saving money make the economy better off because it can stimulate the economy, which is under recession. This is so because when individuals save more the bank lend this money to the business at a very low interest rate. This is a great opportunity for business to expand their business and reduce unemployment and increasing demand in the market. Therefore, with a reduction of unemployment and increase in spending, the economy start to grow. Therefore, saving money makes the economy as a whole better off.

Works Cited

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