Economics case study

Business, Customers

Relationship between consumption and GDP

The circular flow of income refers to the relationship between producers and consumers in a market situation. There is some sort of reciprocal actions where the two are interdependent on each other, they are both referred to in this case as firms and households where the firm is the producer, and the household is the consumer. This refers to a small-scale market situation as compared to the gross domestic product or the GDP. This is the whole accumulation of the market value of all of the services as well as the goods produced in a country during a specific period.

Therefore, consumption is a factor of the GDP, which put together with other functions in the large scale such as government spending and gross investment to come up with the equation. When analyzing the graph it is quite evident that the savings rate in the household has been declining steadily over the period (Ross, 208). Concurrently, the household debt rose significantly throughout time and became a significant portion of the GDP. Eventually it surpassed the GDP to become almost one and a half this amount, which is ridiculous. Yet the country still survives, but the question is how the government kept the system afloat. The reason is probably the use of the credit card system that got the country in this mess, in the first place. As the household savings decreased, they were replacement by over borrowing and this accumulated to a massive national debt. At the time, the government, and the country had a false sense of security because it did not give an outward alarm thus there were no warning signs.

Savings in the American economy

It seems the American people got the picture from the economic crisis and decided to rebuild their economic stimulus to the highest level ever within a year because of the doubtful nature of the strength of the economic recovery. At the same time, the economic stimulus programs for the government. There are reports that the amount of money from the average paycheck that goes unspent jumped to a new high of 6. 4 percent in the month of June. This defers from the period of high spending when the American people spent to less than one percent of their paychecks (Mui, 110).

The savings increased significantly even though there was a stagnant wage income growth that was spurred by the governments hiring of the temporary census workers. This performance indicates signs of an economy that has not yet gotten through to a position of self-sustaining recovery. The report especially in recent times indicates that consumers will not be the group that drugs the system out of the rut due to flat spending rates and saving attitudes as well as the stubbornly high rates of unemployment.

One can understand the concern of the people that think saving is not such a good idea. For one, the economy is still in a rough position and the value of the currency may continue depreciating, therefore, saving may just be taking one-step forward, and two steps in the reverse direction. This is can happen as people rush to withdraw when they realize what is going on, but by that time, the damage will have be done. Therefore, people should move in the opposite direction other than what their instinct tells them to do in this case.

Demand deficiency unemployment in Spain

The Spanish economy was one of the hardest hit economies in the European block in 2008 due to the hash economic downturn. The figure goes into the millions as of the present date. Reports also indicate that the figure doubled in the past twelve months indicating an ascending trend. Currently there are various types of unemployment that fall into four groups these are seasonal, demand deficient, frictional, and last but not least structural unemployment (Bized. co. uk, 25). The issue of interest when considering Spanish happens to be cyclical or demand deficient. This is because it varies with the trade cycle.

When the economy is at a booming stage, then firms are prompted to go into a hiring craze where there are large rates of employment. This is because of the large amount of demand there is in a market as consumers are in a better position to spend than in a down turn. When the trade cycle is such that the economy slows down, the demand will fall, and the firms will begin to cut their losses early because they can feel the downturn. This results in firing workers from their jobs. This happens because they no longer have the resources to sustain the workforce at the current rate of income.

At the same time, the economy dictates that they no longer need to produce as much as they normally would because there simply are not enough buyers in the market to take up the opportunities. Of course, not many people will be happy on that note, but the situation cannot be helped in many cases such as Spain as it must be dealt in a large-scale manner.

Structural unemployment in the US

Structural unemployment is like a train station when compared to a real life situation. Even if, the system is running smoothly, there will always be passengers on the sidelines waiting for an opportunity. That is there will always be people left unattended. In the world of economics, this means that a group of individuals will be between employment opportunities. The economists state that this occurrence is experiencing an increase in the United States. This, however, is not a new phenomenon according to their research (Acemoglu, 200).

In fact, it seems like a continuation for a process that has been ongoing. In the great recession that happened in the summer of the year 2009, the US economy grew by about 5. 6 by the end of that year. The unemployment rate was another issue because despite output growth in the three quarters since the recession the rate remained about the same level or even increasing. The demand for jobs is also going in different directions in the economy, as well. There may be a demand for people who can provide high-skill, non-production tasks, but there is also a growing demand for los skill and low pay jobs, which have been on an expanding rate.

The manufacturing jobs and other ‘ middling’ occupations have been on the steady decline. This form of unemployment may be considered as the worst for the reason that it may have little solution, and there is little one can do to control it compared to demand deficiency unemployment, which is a function of the economy forces of demand and supply.

Hyperinflation in Germany

The similarities between the Germans in the post first world war period during the inflation period and the United States are the cause of concern for many a researcher but the United States has still not reached the depths that Germany sunk. The reasons behind the hyperinflation are the same as those for the haphazard entry of the country to wars in that period. As usual, the government could not be trusted to manage the monetary resources in the country. The currency was not redeemable in a stable valuable such as gold and so the value fluctuations depended on the mood and conscience of some politicians.

The Germans also borrowed heavily during the war to sustain their campaign, and this led to even more inflation. There was a lot of difference from the United States that suffered from similar symptoms during that period. Thus, they were at a loss where they had to sustain the war, so they minted excess money and borrowed at the same time. This constituted a recipe for disaster.

Federal Reserve and consumers

The Federal Reserve is an act that was served up by Woodrow Wilson on December of 1913. In this way, the banks would remain as the lenders to the public because the system was a compromise. , the reserve, although would control the supply on which the banks makes loans. Putting money into the system put a lot of pressure on to the interest rates while restricting supply on the potential credit. The reserve used the standard tool of intervention when it came to the crisis in the American economy. This was the cutting of interest rates by the central bank quite aggressively beginning of august of

2007.

When it comes to how much the federal reserve made in the creation of funds, the balance sheet went to about 900 billion to 2 trillion. As soon as the reserve buys the consumer debt as well as the mortgage backed up debt it will go to 3 trillion. This may have something to do with the rising prices of oil gold and food but not directly, however. The spending power of the people has been affected because of the rising prices of goods, and the subsequent fall in the value of the currency puts them in a hard spot. The graph is not very accurate, but it captures the trend on inflation expected in the future (Inflation-linked. com., 8).

This leads to increasing consumer debt in the form of credit card debt brought up by consumers as the cost of basic commodities continues to rise. The effect of this inflation affects the commodities the most such that the people perceive their problem as being the rising cost of goods, but in fact, it is the depreciation of their currency.

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