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Literature, Russian Literature



Case Study 9. 2: Investment Varies Much More than Consumption Question

Why do economic forecasters pay special attention to investment plans?

Take a look at the conference Board's index of leading economic indicators at <http://www.conference-board.org/>. Which of those indicators might affect investment?

Economic forecasters predict economic growth and decline within a country. The GDP is the main variable that the forecasters use to measure economic growth. Economic forecasters pay special attention to investment plans because they have fewer fluctuations. According to the case study “Investment Varies Much More than Consumption,” investment is the only true indicator of economic growth. Unlike consumption, investments are not made from the disposable income and, therefore they are better indicators of economic growth. Indeed, consumption does not have a direct correlation with people's earnings. This is because people will tend to maintain a stable consumption despite income fluctuations. “Consumption varies less than GDP because consumption depends on disposable income” (Bade, & Michael, 2002). This indicates that consumption cannot be a better measure for economic growth. Moreover, an extreme economic situation such as booms and recession depends in investment trends (Bade, & Michael, 2002). For instance, the 2001 recession resulted from a decline in investment and not consumption.

On the conference Board's index of leading economic indicators, consumer confidence might affect investment. This is because consumers are fundamental drivers of the economy. Ideally, consumer confidence affects consumer's decisions, which in turn determines investment trends and

capacity. Consumer confidence also indicates a sustainable investment rate. This is because consumer confidence only occurs in a stable economy (McEachern, 2012). For instance, consumers in the banking sector will be confidence with if the industry has a sustainable investment rate. In such an economy, entry and exit of businesses from a particular economy is minimal. Consequently, the leading economy index would give or gives minimal information on the country's investment and, therefore not a sufficient indicator.

References

- Bade, R. & Michael, P. (2002). Foundations of Microeconomics. Boston, MA: Addison-Wesley
- McEachern, W. A. (2012). ECON Macro 3 (3rd ed.). Mason, OH: South-Western