

Brazil consumption essay

[Economics](#), [Currency](#)



Brazil - Consumption Analysis General Analysis The consumption and GDP data being considered for Brazil relates to the period 1996-2005. [1]The Consumption and National Income in Brazil during this period have risen in the same proportion approximately. The National Income and Consumption have been on a constant rise in the decade being analysed. The National Income of Brazil has grown at a Compounded Annual Growth Rate (CAGR) of 3.08%, while the Consumption of Brazil has grown at a CAGR of 2.

98%. [pic] Consumption Function On the basis of regression carried out between National Income and Consumption of Brazil, the consumption function can be written as Consumption = Constant + MPC * National Income
Consumption = 78299.0234375 + 0.76072871685028 * National Income
Marginal Propensity to Consume The Marginal Propensity across the period has been calculated using the Consumption Function as mentioned above. The National Income and Consumption data has been used for the respective year for this calculation. [pic] The MPC for all period has been between 0 and 1 and has hovered around the 0.6 mark which means that for every extra Brazilian Real earned, on an average, the consumer spends 0.

76 of it. MPC measures the sensitivity of consumption with respect to a change in National Income. This is in agreement to consumption function which is central to the Keynes theory of Economic Fluctuations that says the value of MPC is between 0 and 1. Average Propensity to Consume [pic] Even though the National Income has been rising over the period, the Average Propensity to Consume has been declining during this time. This upholds the consumption function which is central to the Keynes theory of Economic Fluctuations which says that APC falls as the National Income rises. While

National Income has risen at a CAGR of 3.08% during the period, the APC has decreased by 0.

29% (CAGR). Consumption - My Personal Understanding When trying to understand consumption on a micro perspective, it is that part of the disposable income that one does not save for the future, but uses for his present needs. But, in a macro perspective, it is how much the economy is spending on goods and services. Consumption is nothing but what households in a country spend on, put together. A nation's income can be used only in two ways, either consuming it or saving it.

So what is not saved is Consumption. An expense, which would earn income in the future is an investment and is a result of saving and does not form a part of Consumption. Consumption can be divided into two simple parts, one that is constant across time and another that depends on the marginal propensity to consume, the behaviour of consumption in relation to national income. The constant factor of consumption refers to consumption relating to habits and probably contractual commitments.

Such expenditure is mandatory every year and is not affected by the income of a person. An example of such expenditure could be life insurance premium payment which has to be paid, irrespective of whether the person is earning or not in that financial year. This relates to an individual per se, but can be extrapolated to an economy as well.

Even when the national income is zero, this expenditure is mandatory. I currently do not earn any money as I am completing my MBA, but due to

contractual requirements, I still have to pay my LIC premium payment. In a macroeconomic scenario, such expenditure is not affected by income, but other factors such as interest rates, technology, etc. Such expenditure also plays an important part in initiating business-cycle instability. The second part of consumption is the consumption that is dependent on the income of a person.

Such expenditure arises because people are bound to spend a part of their income they have. Such expenditure is directly proportional to the income, i. e. more the income, more such an expenditure. Such expenditure helps decide the demand in an economy, but also works towards accelerating and magnifying the business cycle instability. A clear example of how both these parts of consumption work in tandem to bring about business cycle instability is the US economy when Alan Greenspan, Former Chairman, US Federal Reserve, was reducing interest rates.

The constant consumption was affected by the reduction in interest rates and therefore people took more and more loan and the contractual expenditure in form of EMI payment and other forms of payment increased. Now expenditure for one is income for another. Therefore, as a result of reduced interest rates, business prospered as the US economy converted from savings economy into a consumption economy. Because the business prospered, the disposable income of individuals increased and therefore people consumed more, because the expenditure dependant on income increases with income. Now, with increased income, the APC falls and savings of people increases.

Therefore, people started investing the saved money in real estate and the demand for real estate increased leading to a bubble. Once, the bubble was created and Alan Greenspan retired, paving way for Ben Bernanke, Chairman, US Federal Reserve, started increasing interest rates, the disposable income reduced, leading to a reduction in the , but the fixed expenditure could not reduce, thus leading to expenditure commitments.

Therefore, both the parts of consumption play an important part in business cycle instability. Appendix Data Sheet | Country or Area | Series | Currency | Fiscal Year | GDP | Consumption | MPC | APC | | | | |(Real Millions) |(Real Million) | | | Brazil | 300 | real | 1996 | 720, 816 | 600, 699 | 0. 72473 | 0.

33359848 | | Brazil | 300 | real | 1997 | 872, 452 | 734, 006 | 0. 75157 | 0.

841313669 | | Brazil | 300 | real | 1998 | 939, 479 | 797, 781 | 0. 76583 | 0.

849174165 | | Brazil | 300 | real | 1999 | 981, 764 | 837, 897 | 0. 77371 | 0.

853460255 | | Brazil | 300 | real | 2000 | 1, 110, 861 | 933, 023 | 0.

76943 | 0. 3991004 | | Brazil | 300 | real | 2001 | 1, 194, 970 | 996, 405 | 0.

76831 | 0. 833832649 | | Brazil | 300 | real | 2002 | 1, 336, 748 | 1, 112, 675 | 0.

77380 | 0. 832374539 | | Brazil | 300 | real | 2003 | 1, 494, 767 | 1, 212, 525 |

0. 75880 | 0. 811179936 | | Brazil | 300 | real | 2004 | 1, 797, 054 | 1, 436, 053 | 0. 5554 | 0.

799115107 | | Brazil | 300 | real | 2005 | 2, 002, 843 | 1, 594, 333 | 0. 75694 | 0. 796034936 | Data File [pic] References: • <http://data.un.org/Data>.

aspx? d= SNA&f= group_code%3a102%3bitem_code%3a7 • <http://www.amosweb.com> • John Maynard Keynes - Consumption Function
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