



The Importance of Households in the Economy

This is the final week of Financial Information Month and so we would like to focus on money and how it circulates in the economy. There are three main groups which affect the economy namely households, businesses and government and all three affect the financial stability of the country. We will focus on households and their impact on the economy.

We all have needs, be it food, housing, clothing or entertainment. We also need to educate ourselves and our children. Meeting these needs and wants are for the most part, not free so we must have the ability to pay for them. It is in trying to fulfill these needs that money is circulated throughout the economy as households choose which goods and services they need to procure. It is interesting to note that businesses affect the purchasing power of households by setting their prices at various levels. The price of goods and services offered would directly affect the amount of money available to each household for spending and saving.

Savings

Both saving and spending have an effect on the economy. Saving is important as it allows us the opportunity to put money aside for future plans and prepare for retirement. Saving can be done in a variety of ways ranging from putting money in your local credit union or bank to investing in stocks. What is important to point out is that monies placed in savings at banks and other financial entities are in turn used by these entities to issue loans to individuals or to institutions. Therefore, the more money that is saved by households, the more that is available to reinvest in the economy.

Spending

Whether we like it or not, we need to spend money to carry out our daily lives. If everyone kept their money under their mattresses this would result in a stagnant economy. The money we spend on entertainment for example, pays the salaries or wages of the employees at these establishments. These employees in turn would now purchase food items, pay utilities and they may even save. But we must stress here that when spending one must do it with a budget in mind. Always ensure that a portion of your earnings no matter how small is placed in some form of savings.

It is through our daily activities and the pursuit of medium to long-term life goals that we spread money throughout the economic system and keep it alive. Without the nucleus of the household and its attendant needs and wants, the system would in all likelihood never get going at all.