VAASAN AMMATTIKORKEAKOULU
UNIVERSITY OF APPLIED SCIENCES

Shreya Mukherjee

THE SPENDING AND SAVING BEHAVIOUR OF THE FINNISH POPULATION AND ITS IMPACT ON THE FINNISH ECONOMY

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VAASAN AMMATTIKORKEAKOULU
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Tämän tutkimuksen tavoite on selvittää Suomen väestön henkilökohtaisten säästämistapojen vaikutusta Suomen talouteen. Henkilökohtaiset säästämistavat liittyvät suoraan kotitalouksien kulutukseen. Väestön tekemät säästöt vaikuttavat suoraan investointeihin, pääasiassa yksityisellä sektorilla, ja täten vaikuttavat talouden BKT:een (bruttokansantuote). Säästäminen on kulutuksen vastakohta, joten tämä opinnäyte analysoi myös suomalaisten kuluttajien kulutustapoja.

Talouden BKT koostuu neljästä perusosasta – kulutuksesta, investoinneista, julkisista menoista ja nettoviennistä. Jokaisella osalla on syvällekäyvät käsitteet siihen liittyen. Tämä opinnäytetyö pyrkii tutkimaan näistä kahta osaa – kulutusta ja investointeja, yhdessä esimerkkimaassa – Suomessa.

Teoreettinen viitekehys muodostuu asiaankuuluvista aihealueista, jotka tarjoavat tietoa tutkimukselle. Aihealueet sisältävät kaikki peruskäsitteet, joita tarvitaan kulutuksen ja säästämisen, sekä näihin vaikuttavien ulkoisten tekijöiden ymmärtämiseen. Suomen nykyinen taloudellinen tilanne analysoidaan ja käsitellään perusteellisesti teoreettisen viitekehyksen jälkeen.

Tutkimuksen empiirinen osa suoritettiin kvantitatiivisena eli määrällisenä tutkimuksena. Aineisto kerättiin noin 176:lta Suomen asukkaalta käyttäen hyvin suunniteltua Internet-pohjaista kyselylomaketta. Johtopäätökset laadittiin näiden vastausten kanssa. Analyysi tehtiin myös käyttäen Suomen taloudellista suorituskykyä ensisijaisen aineiston kanssa, joka kerättiin kyselylomakkeista saaduista vastauksista. Tutkimuksessa havaittiin kuitenkin muutamia epäjohdonmukaisuuksia, jotka on selvästi osoitettu kappaleessa ”Limitations”.

Lopuksi annetaan ehdotuksia jatkotutkimukselle epäjohdonmukaisuuksien poistamiseksi sekä tarkemman kuvan esittämiseksi Suomesta tilanteesta.

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VAASAN AMMATTIKORKEAKOULU
UNIVERSITY OF APPLIED SCIENCES
International Business

ABSTRACT

Author	Shreya Mukherjee
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The aim of this research is to find out the impact of personal saving patterns of the Finnish population on the economy of Finland. Personal savings patterns are directly related to the household consumption. Savings done by the population directly affects the investment, mainly the private sector, and hence contributes to the GDP (gross domestic product) of an economy. Savings is opposite to consumption. Thus, this thesis analyzes about the consumption patterns of the Finnish consumers also.

GDP of an economy is made up of four basic components – Consumption, Investments, Government Spending and Net Exports. Each of these components has profound concepts associated with it. This thesis tries to study two of the components, i.e. Consumption and Investment, for one case country, i.e. Finland.

The theoretical framework consists of relevant topics to provide an insight for the research. The topics cover all the fundamental concepts needed to understand consumption and saving and the external factors that affects them. Following the theoretical framework, the current economic situation of Finland is analyzed and discussed thoroughly.

The method used for the empirical study was quantitative. Data was collected from approximately 176 Finnish residents through a well-designed we-based questionnaire. The conclusion was drawn up with these responses. An analysis was also made by using the economic performance of Finland with the primary data collected from the responses received from the questionnaire. However, a few inconsistencies were found during the research which have been clearly addressed under the section *Limitations*.

Finally, future suggestions for more extensive research were given in order to eliminate the inconsistencies and present a more accurate situation of Finland for further studies in future on the subject.

Keywords Economy, Consumption, Spending, Saving

CONTENTS

Keywords Economy, Consumption, Spending, Saving

Keywords Economy, Consumption, Spending, Saving

LIST OF FIGURES AND TABLES

Keywords Economy, Consumption, Spending, Saving

Keywords Economy, Consumption, Spending, Saving

Keywords Economy, Consumption, Spending, Saving

LIST OF APPENDICES

Keywords Economy, Consumption, Spending, Saving

1 INTRODUCTION

This thesis studies the spending and saving behavior of the residents of Finland. An analysis will be presented, which will show the general savings and consumption patterns of the Finnish residents.

The purpose of the research is to find out the impact of personal saving patterns of the Finnish consumers on the economy of Finland. Personal saving is related to consumption. The two factors are negatively correlated. For example, in a particular time frame and with a fixed income, if an individual is consuming more, it means that he/she is saving less. Whereas, if an individual is saving more, then it means that he/she is consuming less. This example is a generalization, but this thesis will focus on the Finnish population and present the results of how much does the average Finn consumes and saves.

The research for the thesis will be useful to entrepreneurs who have recently established their businesses and to those who are considering to set up their business in Finland. The research will give an economic guideline to such people about the consumption behavior of their potential customers.

The thesis begins with discussing the required theoretical framework to understand the rudimentary concepts of consumption and saving. The economic situation in Finland is discussed briefly, after the theoretical framework, in order to introduce the country in an economic perspective. Following the country's discussion, the empirical study carried out is explained. Finally, a detailed discussion on the research is provided which assists in drawing the conclusion for this thesis.

Keywords Economy, Consumption, Spending, Saving

2 THEORETICAL FRAME OF REFERENCE

The objective behind this chapter is to introduce the relevant topics in the area of Economics and Finance in order to understand the research presented later in the thesis. First, the subject regarding spending and consumption will be discussed and then the subject regarding savings will be explained.

Spending or consumptions or savings go on to make the economic pie called GDP of a country. So, we will need to first understand what is meant by GDP and what its significance is.

2.1 Gross Domestic Product

When an individual wants to determine the economic value of his/her efforts, he/she measures the effort in monetary terms, i.e. the income he/she makes, by way of salary (income from job) or profit (renting out property) or interest (keeping money in bank) income or by combination of all these. This is the micro level since this concerns only the individual, or at most a household. However, in the macro level, economists need to measure and compare the economic value of different nations for various purposes. Therefore, they have found a key indicator of economic measurement. This indicator is known as the *Gross Domestic Product (GDP).* In very basic terms, we can say GDP is how much a country makes per year.

2.1.1 Definition of Gross Domestic Product

There are numerous definitions of GDP. A standard definition is that GDP is the main indicator which shows how a country is doing economically and it is measured by the country's output and income (Burda & Wyplosz 2009). There are three ways of calculating GDP and therefore, the definition of GDP varies with the perspective of the variable. The three definitions are given as follows:

1) GDP is the value of the final goods and services produced in the economy (country's) during a given period.

2) GDP is the sum of value added in the economy during a given period.

3) GDP is the sum of incomes in the economy during a given period.

(Blanchard, Amighini & Giavazzi 2010: 16-17)

It is important to note that for a particular economy at a given period, the GDP will always be equal regardless of the perspective chosen.

$$GDP_{(\text{final goods and services})} = GDP_{(\text{value added})} = GDP_{(\text{incomes})} \quad (1)$$

2.1.2 Nominal GDP vs Real GDP

In Economics, there are two types of GDPs: nominal and real. The difference between the two is that nominal GDP is the sum of the quantities of final goods produced multiplied by their current prices (Blanchard et al. 2010: 19) whereas the real GDP is the sum of the production of final goods multiplied by constant prices (Blanchard et al. 2010: 19).

The real GDP gives a clear value because it is adjusted to inflation. In addition, it can be easily compared with the GDPs of previous years for a particular economy. Whereas, the nominal GDP does not provide any room for comparison since it does not take inflation into account.

(Real GDP is denoted as **Y** and nominal GDP is denoted as **€Y**.)

2.1.3 Real GDP per capita and GDP growth

The real GDP per capita is also a useful tool to assess the living standard of an average individual in a particular economy. The formula to calculate the real GDP per capita is shown in Figure 1.

$$\text{Per capita real GDP} = \frac{\text{Real GDP}}{\text{Population}}$$

Figure 1. Formula for real GDP per capita.

The real GDP per capita shows how the economic pie of the country could be divided between each citizen of the country (had the wealth distribution been fair and equal). So, in turn, it shows how rich (or poor) each citizen of a country could be, albeit theoretically. For example, real GDP of China is far more than that of Finland, but due to the vast population of China (and meagre population of Finland), an average Finn is richer than an average Chinese. Hence real GDP per capita is a very meaningful concept, as it gives a good idea of economic well-being of an average citizen of the country.

Also, to get meaningful perspective of how a country is doing economically year on year, rate of growth of real GDP is a very important parameter to measure. As a person grows in age, his/her expenses and economic commitment rise and he/she needs to earn more and more. If his/her real income grows, year on year, he/she gets richer and has more disposable income. If his/her earnings reduce, he/she gets poorer. A similar analogy is also true for a country's economy. If the growth in real GDP of a country is positive, the economy of the country is expanding (in other words, the country is getting richer). On the other hand, if the real GDP growth turns negative, the country is getting poorer. Nowadays, if the real GDP growth reduces from their previous values consecutively for two quarters, the country's economy is said to be in recession (Blanchard et al. 2010).

2.1.4 Components of GDP

In order to determine how to calculate the GDP, we need to look at the components of it. According to Case and Fair (2005: 88-91) there are two approaches on finding the components of the GDP – the expenditure approach and the income approach. However, in this thesis only the expenditure approach will be explained as this approach will help to interpret the research.

The Expenditure Approach

In this approach, expenditures done by all groups in a particular economy (country) are collected, classified and summed up. These groups are households, firms,

the government and the rest of the world. The components for the expenditure approach are explained as follows:

1) Consumption (C) – This is the expenditure households incur in order to meet their day-to-day needs. Consumption consists of everything ranging from food to clothing, petrol, and so on. There are three main types of consumption expenditure: durable goods, non-durable goods and services. The goods which are used and last for quite a long period (e.g. furniture, cars, etc.) are termed as durable goods. In contrast, households also buy and pay for the goods and services for everyday life, which do not last for too long. These include food and services like internet, telephone, transportation, electricity, etc. These are classified as non-durable goods (Case et al. 2005).

   This component of GDP is based on several factors. The most significant one is the disposable income. Disposable income can be defined as the income received after taxes have been deducted. Therefore, the more disposable income a household has, the more it is able to spend on consumption. The second most considerable factor would be taxes. Taxes are negatively correlated with consumption. This means that the higher the taxes the less will be the disposable income, which in turn means less disposable income will be spent on consumption. Other factors that affect consumption are savings, wealth and confidence on the economy.

2) Investment (I) – This component refers to fixed investment. Firms need new machinery, plants and equipment etc. either to expand their productions or to replace their worn out assets, so that they can keep the production levels at the present level. These are called capital goods (Begg, Fisher & Dornbusch. 2008), purchase values of which are depreciated over long periods. Similarly, individuals sometimes buy new houses and hence, spend on new properties. For the purpose of calculating GDP. Investment is the sum of the money spent by firms for acquiring of new plant and ma-

chinery (capital goods) and that spent by individual to buy new houses or apartments. (Blanchard et al. 2010: 41).

Majority of economists and experts claim that investment is equal to savings. Saving is that part of the income which is not spent to buy anything (Begg et al. 2008: 383). Savings can be private (households) or public (government).

If the disposable income is not spent by a household to buy either durable or non-durable goods, then that part of income, which it does not spend is termed as private savings. Government generally spends a great deal on different public goods and services in order to run the country and to provide its citizens facilities and services for their well-being. Government gets its fund, in turn, from households and businesses by way of taxes. If the government does not spend all the monies it collects by way of taxes, it mounts to savings, which is termed as public savings. In other words, public savings is same as budget surplus, which in effect is the difference between the taxes and the total spending by the government.

Savings is equal to investment because it saving is the source for investment. The more households and the government save, the more will they be able to invest in the future.

3) Government Spending (G) – Government of a country generally makes a budget at the start of each fiscal year. This budget shows how much the government expects to collect from the households and businesses by way of taxes. The budget also lists how much and on what different levels of the government (national, regional and local) plans to spend on during the fiscal year. This is also termed as the fiscal policy of the government.

   For the purpose of computing the GDP, Government spending is the amount of the money the government spends totally during the fiscal year (Blanchard et al. 2010: 42).

4) Net exports (X-IM) – Each country generally sells some goods and services manufactured within the country to other countries. The sales amount it receives by selling its products to other countries is called exports. In the same coin, as any country cannot manufacture everything it needs within the country, it has to buy some of the products it needs from the other countries. The purchase amount it pays to other countries for their products and services is termed as imports. Net export is the difference of total exports and the total imports of an economy (Case et al. 2005: 90). Net export is the fourth and final component of GDP of an economy.

   The positive difference between exports and imports is called trade surplus. Whereas, the negative difference between exports and imports is called trade deficit. The goal every economy aims to achieve is to have a large trade surplus. This will have positive impact on the GDP.

In conclusion, we can formulate an equation for GDP. It is given as follows:

GDP = C + I + G + (X-IM) (2)

2.2 Limitations of GDP

GDP is used as a principal indicator of economic well-being of an economy. But this measure is not perfect and has many flaws. GDP measurements are purely done in money terms. Quality is not taken into account at all. The quality of a new product which is introduced and which can improve quality of human life significantly is not considered in GDP computation. The quality of life (leisure time of workers) and innovation is completely ignored, though these factors significantly affect quality of life and well-being of general public. In most countries, a significant amount of underground trade occurs where a lot of legal and illegal goods are traded daily and a lot of money exchange hands. As no invoices and sales receipts are issued for these transactions, these consumptions are not recorded and hence do not find their way into GDP computations. Similarly, in many economies, people barter goods and services and money is not used as currency for such transactions. These are called non-market productions. These trades are omitted for GDP

calculations. Hence, the GDP measures in most economies are understated. Pollution (air, water, sound, etc.) affect adversely the well-being of people, but while calculating GDP, their negative effects are not deducted. From the above, it is amply clear that GDP is not a perfect indicator of economic well-being of an economy, but by far it the only useful and functional index (Investopedia LLC, 2016).

Since there are numerous drawbacks in GDP, a few more useful indicators can accompany GDP in order to assess a nation's economic performance. The indicators are discussed in the following topics.

2.3 National Domestic Product (NDP)

NDP is an economic indicator that presents the difference between GDP and depreciation. Each capital good (equipment, plant and machinery, vehicle, etc.) slowly loses its capacity to produce as a result of long usage or become obsolete. So, it is a common practice to take some money out each year from the profits and accumulate this money gradually over the years, so that the capital good can be replaced with a new one, when it loses its production capability. The process of accumulation of money over the years for this purpose, by "writing off" of the capital good is called depreciation (Begg et al. 2008, 389). The formula is given below:

NDP = GDP – Depreciation (3)

2.4 Gross National Product (GNP) and Net National Product (NNP)

GNP measures total income earned by domestic citizens regardless of the country in which their factor services were supplied (Begg et al. 2008: 388). This gives a clearer picture of output produced by a particular economy than GDP because it eliminates international factors of production used. The formula for GNP is given below:

GNP = GDP + Net property income from abroad. (4)

Net property income from abroad refers to the difference between income earned in foreign countries by residents of a country and income earned by foreign nationals domestically.

NNP is obtained by subtracting depreciation from GNP. The formula for NNP is given below:

NNP = GNP – Depreciation (5)

It can be seen from above, concepts such as NDP, GNP and NNP are the approaches to try to streamline the GDP and to make it more realistic and perfect. But, it has been seen that the cost and effort to gather data order to compute these values far outweighs the benefits. So, for most practical purposes for common economic decisions and comparisons, GDP remains the most practical measure of an economy till date. Hence, in this thesis, we will stick to GDP as the most practical indicator of economic well-being of the economy.

2.5 Consumption

All living things in the world need to consume in order to survive. Economists tend to look at human consumption since human beings are the driving force of the economy they reside in. Consumption is one of the most significant elements not only in GDP but also in other macroeconomic subjects. It is the utilization of goods and services by households. Each human being, in order to survive and live, spends some money to buy goods (food, car, petrol, clothes shoes facial and body creams, furniture, newspaper, etc) and services (transportation, telephone service, internet, etc). In layman's terms, total money spent by all the individuals in the economy in buying these goods and services is termed as consumption. To illustrate how important consumption is, consider an economy where consumption does not take place. Firms can produce as many goods and services as they want, but if households do not purchase (i.e. spend money) and consume their products (not enough demand created in the market), the firms will eventually make losses and layoff their workers. There will not be enough jobs or income to buy other goods and services. The economy will cease to function.

As consumption plays a huge part in aggregate demand; economists always have been concerned about what factors exactly determine total consumption in an economy. Obviously, total level of consumption impacts the GDP of an economy in a very substantial and significant way (Gillespie 2007: 310).

2.5.1 Consumption Function

According to John Maynard Keynes (1936), consumption can be represented by a function known as the consumption function which is given below:

$$\mathbf{C = a + (M \times d)} \qquad (6)$$

Where C stands for Consumption, a is the autonomous consumption, M is the marginal propensity to consume and d is the real disposable income.

The most minimum amount of spending that needs to be done even if a person does not earn anything is called autonomous consumption (Investopedia LLC 2016, Gillespie 2007: 311). Even if a person's income is zero, he/she has to buy food and live, for instance, in a minimum rent facility (with heating), in order to survive.

The marginal propensity to consume (MPC) is the ratio of the real disposable income that will be expended on consumption (Investopedia LLC 2016). This means if a person takes home 1000 € home as salary each month, and spends 900 € each month, the MPC is 0.9 (900 €/1000 €).

The consumption function can be graphically represented as follows:

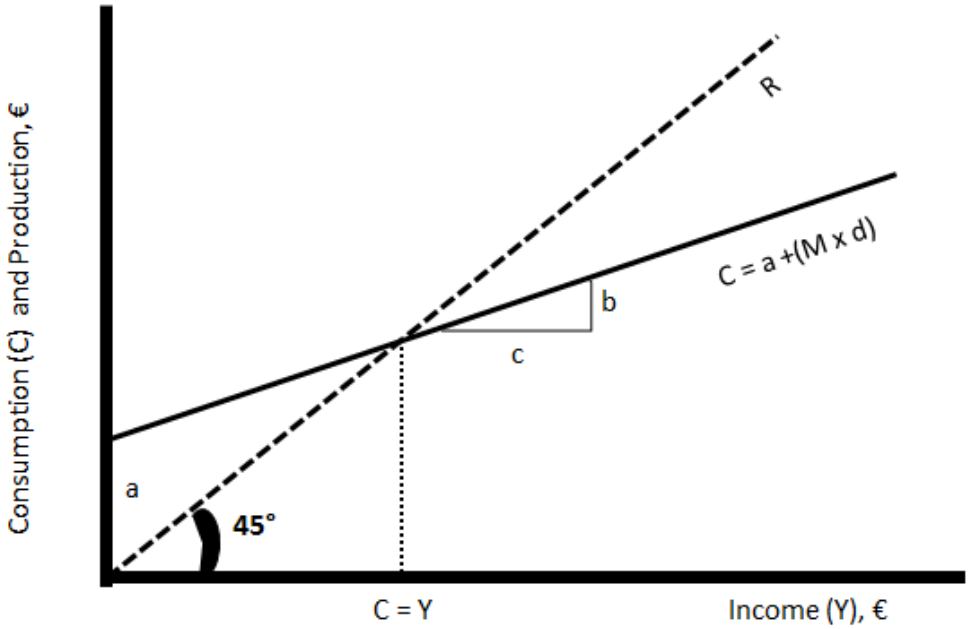


Figure 2 Consumption Function

The consumption function is represented by the straight black line, where the consumption is on the vertical axis and income is on the horizontal axis. The y-intercept of the straight black line corresponds to the autonomous consumption, a. The gradient of the black line, which can be calculated by dividing b by c (b/c),

corresponds to the multiplier. The bigger the multiplier, the higher the gradient of the consumption function.

In addition, the dotted line that crosses the consumption function is production as a function of income. Here, we look at production in the horizontal axis and income on the vertical axis. As shown in Figure 2, it lays 45^{o} degrees from both the axis, which, in turn, means that the gradient of this function is equal to 1. This shows that as production increases, so does the income. This is true because all forms of income – rent, wage, interest and profit - get generated only when production takes places (Blanchard et al. 2010: 47).

When the two functions intersect each other, they are known to be in equilibrium. At equilibrium, the consumption equals to the income. This means, here the person spends all what he/she earns. To the left of the intersection, consumption is more than production, whereas, to the right of the intersection, consumption is less than production (Blanchard et al. 2010: 48).

2.5.2 Factors that determine MPC

As mentioned earlier, the marginal propensity to consume (MPC) is the proportion of the extra euro earned that is used for consumption. MPC is also equal to the gradient of the consumption function (if represented graphically). MPC is important to determine because it will depict how a change in real disposable income can affect consumption. In other words, it determines how much a person will consume more if his/her income goes up or vice versa. There are five factors that have influences on MPC:

1) Interest rates – If there are high interest rates in an economy, households will be more likely to save than spend. By saving, they will able to earn higher returns and will be reluctant to spend their earnings. This will, in turn, reduce the MPC. Similarly, if interest rates are low, households will have the opposite behavior that will increase in MPC.

2) Expectations of future price increases – If prices are expected to rise in the future, then households will be purchasing more now. This increases the present MPC.

3) Expectations of the future state of the economy – If there is an economic boom in the economy, households speculate that the boom will continue in the future and they have job security. With this state of mind, households tend to spend more and save less. This increases the MPC. On the other hand, if there is a recession, then households are more likely to save more and spend less. This reduces the MPC.

4) Income levels – A rich individual is more likely to save a higher proportion of the extra earning than a poorer individual. This is because the wealthier individual will probably have bought all the goods that he needs. Therefore, he will save the extra income earned. This will reduce the MPC for the rich individual. The opposite is true for the poorer individual.

5) The availability and quality of domestic goods compared to foreign goods – This has a big impact on the MPC. If the quality and availability of foreign goods is better compared to the domestic goods, then, the MPC will refer to the foreign goods instead of the domestic ones. This then contributes to the GDP of foreign country, instead of that of domestic economy.

   (Gillespie 2007)

2.5.3 Other factors that determine consumer spending

There are some other factors that influence consumer spending. These factors are listed and explained as follows:

1) The distribution of income in the economy – Poor households tend to have a higher MPC than rich households. If income is redistributed from the high-income households to the low-income ones within an economy then, the MPC for the consumption function for the economy will rise. This happens in socialistic economies, such as Finland, as opposed to capital-

istic economies. In socialistic economies, the government tries to distribute income by way of grants and transfers to low or non-earning individuals.

2) The availability and cost of credit – If the interest rates are low, then households tend not to hold their money in the banks since it is easy and cheap to borrow. Therefore, the consumption can increase without any changes in the income. This is quite true in most western and developed economies (including Finland) as opposed to the developing economies.

3) Wealth effects – If there is a sudden increase in wealth for a household, then the household will be more likely to spend more on income-elastic goods and services. Income-elastic goods are those goods and services which people tend to buy more, when their incomes increase (e.g. luxury cars).

4) The age distribution in the economy – According to Ando and Modigliani (1957), people tend to spend more during their youth. They spend less in their middle ages and again they start spending more (dis-save) in their old age. Therefore, it is important to know the average age of a country to determine whether the majority of the population earns or dis-saves.

5) Expectations – The expectations on incomes and the economic health play major roles in consumption. If households predict that there will be rapid growth of inflation in the future, they might increase their spending in the present when the prices of goods and services remain cheaper.

6) The permanent income theory –In 1957, Friedman introduced a model called the permanent income theory. He said that consumers do not make consumption decision based on their current income but on their "permanent income". The permanent income is the stable income that one receives over a period of a lifetime. It does not take into account lay-offs or bonuses. Consumers try to estimate their permanent income and spend on consumption accordingly.

(Gillespie 2007)

In conclusion, consumption is a major factor in contributing to the GDP of an economy. If there is no consumption of the goods and services produced by the entrepreneurs and industry in the economy, the economy cannot survive and eventually will die. I have spelled out the formula for the consumption above and emphasized on the MPC (marginal propensity to consume). I have also explained and listed broadly the factors and reasons which drive people to consume more and then, sometimes less when the same factors and reasons work the other way.

The part of disposable income which is not spent on consumption is saved. So, savings, in essence, is earnings minus consumption for households. What happens with all the monies that are saved? They are somehow invested. So, does the investment then contribute to GDP of the economy? We will answer this question in the next topic.

Keywords Economy, Consumption, Spending, Saving

2.6 Investment

When a household receives the disposable income (by way of salary or wage, rent, interest or profit), it can do two things with it – consume (spend) and save. The household can either spend everything on consumption (in this case, the marginal propensity to consume will be 1) or save the entire disposable income (the marginal propensity to save will be 1). As practically it is impossible to save everything, as then they cannot live, generally, households practice the combination of both. However, the marginal propensity of saving and consuming depends on the spending (or saving) pattern of different households.

By saving a part of its disposable income, the household saves the money for various events which will occur in the future, such as holidays, unexpected emergencies and expenses. Some households tend to save money in order to invest in lucrative projects to gain positive returns.

Firms go through the same situation. With the earnings they receive, they have two options – either give earnings as returns to the owners (i.e. pay dividends to its shareholders if it is a limited company) or re-invest the earnings on lucrative projects in order to earn positive returns in the future.

Hence, it is fairly safe to say that savings generate investments. That said, it is wrong to equate savings and investments, due to the fact that savings is risk free, but investments always entail a varying degree of risks, as an integral part of it (Laopodis 2013). It is totally risk free to deposit money in a savings bank account, as banks commit to pay a pre-agreed rate of interest. This is Savings. As the risk of losing this deposit is minimal, the reward earned (bank interest) for sacrificing the use of the deposited amount is also minimal. On the other hand, it is risky to invest the same amount in stock market, which can, if things go right with particular stocks, return multi folds returns.

There are many definitions of investment and the definitions depend on the context it is used in. Investment is generally defined as putting money into use for

purpose of earning more money (World Finance 2016). In Finance, investment refers to buying a financial product or any valued item with an anticipation that positive returns (referred as ROI – Return on Investment) will be received in the future (World Finance 2016). In economics, however, it means the utilization of resources (read money) in order to increase income and production output in the future (World Finance 2016).

Investment is an integral part of not only the aggregate demand but also the aggregate supply of an economy. This is shown in the components of the GDP which was explained earlier.

2.6.1 Types of investment

The types of investment include the following:

- Gross investment: This is defined as sum total of monies invested in a period in the particular economy (Gillespie 2007). The gross investment does not provide for any adjustment for investment. Therefore, we cannot use the gross investment in any economic calculation.

- Depreciation investment: This term refers to the monies applied or amounts spent to replace any capital item (such as plant, equipment and machinery) that has lost its capacity or efficiency to produce the desired level of output. Depreciation investment is aimed at maintaining the quality (read efficiency) and the level (read production output) of the capital goods (Gillespie 2007). Please note depreciation investment does not add new capital goods (hence, additional production capacity) to the economy. It simply serves to maintain the level and quality of the present production.

- Net investment: This term refers to the money spent in buying the new resources of production (capital goods) with the intention of increasing the production output (Gillespie 2007). Increase in production level directly contributes to the GDP. Hence, Net investment is the only investment figure which is taken in consideration in computation of GDP of an economy.

Therefore we get the following formula:

Gross investment = Net investment + Depreciation investment (7)

2.6.2 Factors that determine the level of investment

Before investing into a project, an investor needs to take a few factors into consideration. The level of investment depends on the following determinants listed below:

1) Initial cost of the project(s) – Investment will only be viable if firms or households are able to afford the investment. There are many attractive projects to invest, but many people cannot afford the initial outlay of the project. Therefore, they need to forego these investment opportunities. In addition, the cost of the investment also depends on the monetary policy of the economy. If the interest rate is low, firms and households tend to invest their savings into projects which will realize higher returns than the interest rate. Similarly, if the banks are offering a higher interest rate, then firms and households would find it more profitable to keep their savings in the bank instead of investing elsewhere (Gillespie 2007).

2) The expected returns from the investment –How much return (gain) an investment on a project will generate after the project life cycle governs the level of investment made by a firm/household on that project. Generally, investors demand a high expected rate of return since they need to sacrifice monetary resources for projects which involve risks and uncertainties (Economics Online Ltd 2016). The astute investor would aim for maximizing the returns from investment(s) with the limited monetary resources he has. Therefore, evaluative methods such as net present value, payback period, internal rate of return and profitability index are applied when assessing the projects.

3) The available alternatives – As mentioned earlier, investors need to sacrifice both money and time on projects. They also need to check the available alternatives in order to ascertain whether he is making the right deci-

sion. In this case, he needs to assess the opportunity cost. The opportunity cost is the next best alternative forgone (not chosen). If the benefits foreseen of an alternative project are low, it is always better to invest in the project chosen. Conversely, if the alternative project is adjudged more profitable, then it is wise to forego the project at hand and pursue the best alternative project and invest on that project (Gillespie 2007).

4) The risk-taking culture – This factor depends mostly on the investor. Different investors have different perception of the outcome of the projects and will therefore have various attitudes towards the risks. The culture can also be looked at from a national level. If a country is a risk-taker, then the country is likely to make more investments. However, if the country is risk-averse, it is going to be more critical during the assessment of any investment opportunity.

5) Non-monetary factors – Apart from expected returns, in firms and households need to take non-monetary factors into consideration. For example, environment plays a major role in the decision-making process. Educated investors will generally select a project which is more environmental-friendly than the other projects which are not environmental-friendly.

6) Government policy – Like the monetary policy, changes made in the fiscal policy can affect the level of investment. For instance, changes in the taxes will influence the decision-making process for investors. If the tax rates are high, then this means that households will have lower disposable income which, in turn, will lead to lower savings (depending on the marginal propensity to consume). Whereas, if the tax rates are low, then this means that households will have higher disposable income which, in turn, will lead to higher savings.

2.6.3 The marginal efficiency of capital (MEC)

The marginal efficiency of capital (MEC) shows the relationship between the rate of return and the investments. It shows how much the rate of return changes when there is an additional investment project (Chand 2015). This concept is quite important for firms and households to understand because the MEC can act as a tool in order to evaluate the need for investing in an additional project. The principle is to go ahead with projects where the rate of return is higher than the cost of borrowing.

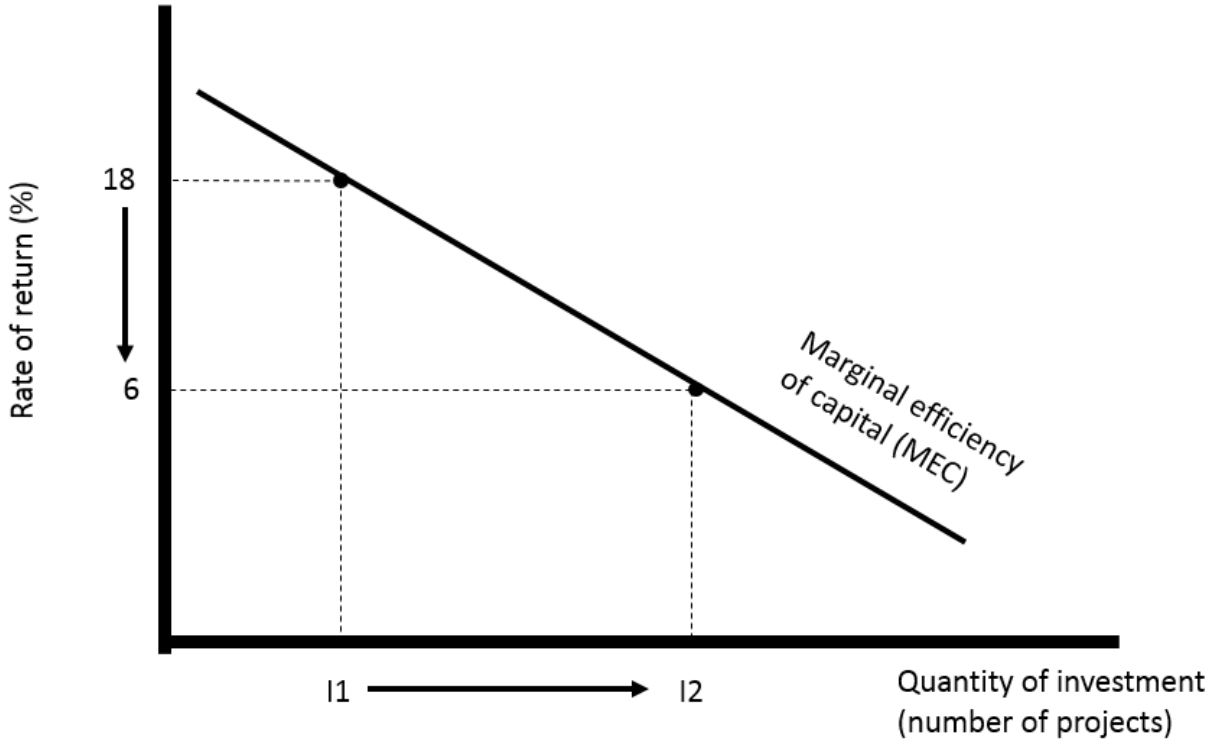


Figure 3 The marginal efficiency of capital

Figure 3 illustrates an example of an MEC curve. In the graph, it shows that project I1 gives a return of 18% and project I2 gives a return of 6%. If the cost of borrowing is 6%, then projects up to and until I2 will remain financially attractive. So, investing money in project beyond I2 will generate only loss. So, changes in monetary policies of an economy play a big role in determination of the investment level. Change in investment level with respect to change in the interest rates is governed by the interest elasticity of the demand for capital goods (Gillespie 2007).

2.6.4 The impact of a change in investment

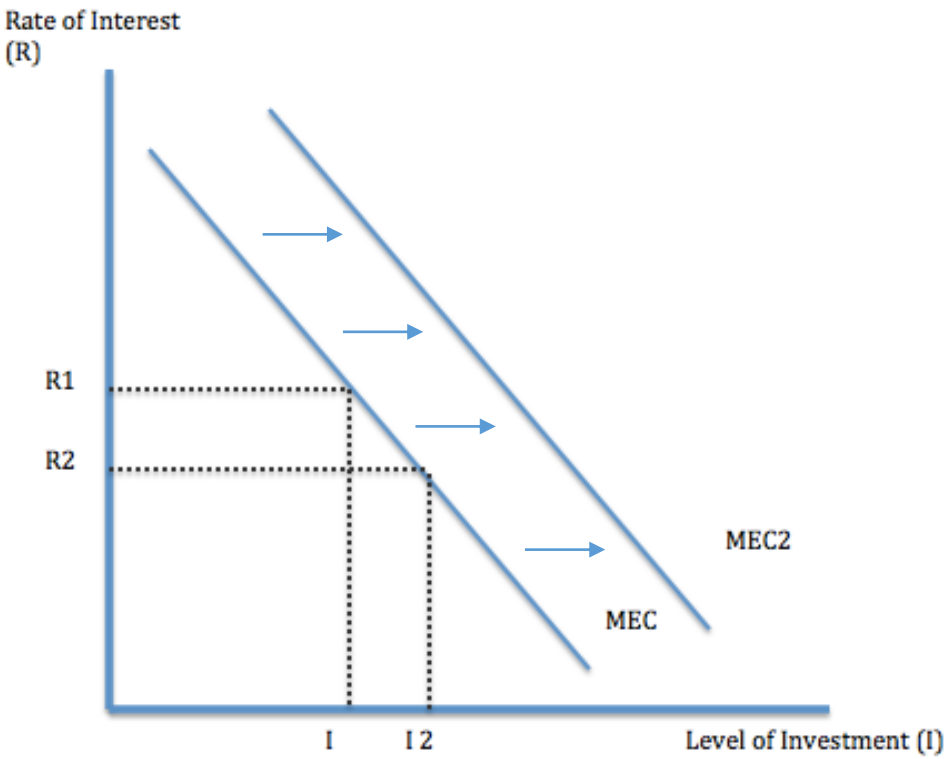


Figure 4 A shift in the marginal efficiency of capital

If the level of investment in the economy increases, the MEC curve shifts to the right from MEC to MEC2, as shown in Figure 4. This means that the aggregate demand for the economy increases (as shown in Figure 5) which, in turn, starts of

the multiplier process. The multiplier process eventually creates more aggregate demand in the economy.

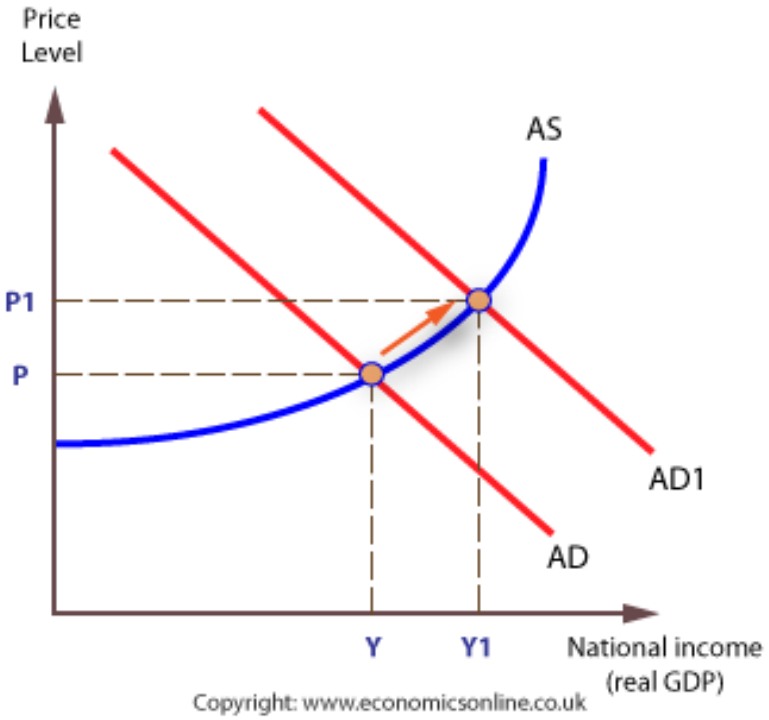


Figure 5 The effect of an increase in investment on aggregate demand

From Figure 5 and Figure 6, we can conclude that investment acts as an injection into an economy. From the aggregate demand's perspective, investments are produced by consumption (which was explained earlier). By investing, firms and households buy more capital goods, and hence, increase the consumption of capital goods. This increases the aggregate demand in the economy. Therefore, the AD curve shifts to AD1 and the economy generates more output (shifting from Y to Y1). Investment also has an impact on the aggregate supply (Figure 6) as it increases the productive capacity of the economy (Gillespie 2007). The productive capacity is derived from the capital goods which were used to meet the aggregate demand. This helped to produce sufficient output to shift from Y to Y1 in Figure 5.

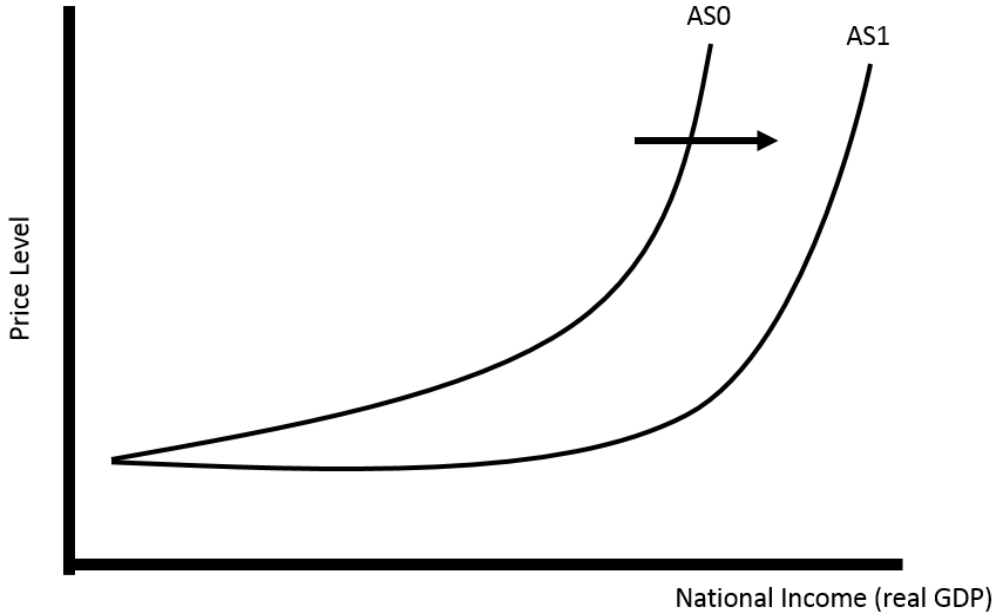


Figure 6 The effect of an increase in investment on aggregate supply.

In conclusion, we can see that just like consumption, investment also plays a major role in contributing in the GDP. The money to invest is generated from savings, which involves foregoing spending on the things which we do not need.

If investment does not have an impact on the aggregate supply but the aggregate demand increases (shifts to the right), for instance, the economy will face a rise in the general prices which will lead to inflation. Therefore, it is crucial for the future of any economy because the projects which are invested on, will evolve in the future and produce goods and services for the households. This means it will convert into consumption in the long run.

Keywords Economy, Consumption, Spending, Saving

2.7 Inflation

As explained in the previous chapter on investment, if the investment does not have an impact on the aggregate supply but has an impact on the aggregate demand, then inflation will occur. In this chapter, inflation will be explained since changes in inflation play a major role in the spending and saving patterns of the population in any economy.

In order to understand inflation thoroughly, we need to clarify a few definitions first. The general rise in price level (where is there to stay) of most goods and services in an economy for a considerable period of time is defined as inflation (Gillespie 2007; Simpson 2016). By "price level", economists mean the average prices of goods and services in the economy. The inflation rate is the percentage increase in the price level from one year to the next (Hubbard & O'Brien 2013). Most nations (economies) calculate inflation as percentage increase of consumer price index (CPI) from the previous period (year). The consumer price index (CPI) is defined as the average of the prices of the goods and services which are typically bought and consumed by a typical household in the economy under study (Hubbard et al. 2013).

2.7.1 Causes of inflation

There are mainly three causes of inflation:

1) Demand-pull inflation – Demand-pull inflation is better explained with the help of Figure 7. If there is an increase in aggregate demand, the AD curve shifts from AD1 to AD2. This can be due to many factors (e.g. rise in investment). If the aggregate demand is increasing more than the aggregate supply then there will be a "pull" in the prices (increase in prices). This is happens because the aggregate supply is inelastic as shown in Figure 7. This means that producers are not able to meet the increase in demand as, in the short run, they do not possess the required resources to do so. This is experienced when the producers see shortages, low levels of stock, long waiting lists and queues. In order to solve this problem, producers general-

ly increase the prices so that the demand and supply for their product(s) is again at equilibrium, thereby causing demand-pull inflation to take place.

This is quite typical and commonplace phenomenon. If people want a good in much more quantity than what can be supplied due to limitations in either the number of suppliers and/or production capacities, then buying price of that particular goods rise in the market, and only the people who can afford the goods at that increased price gets to buy the goods. So, net effect is the increase in the price of the commodity – inflation.

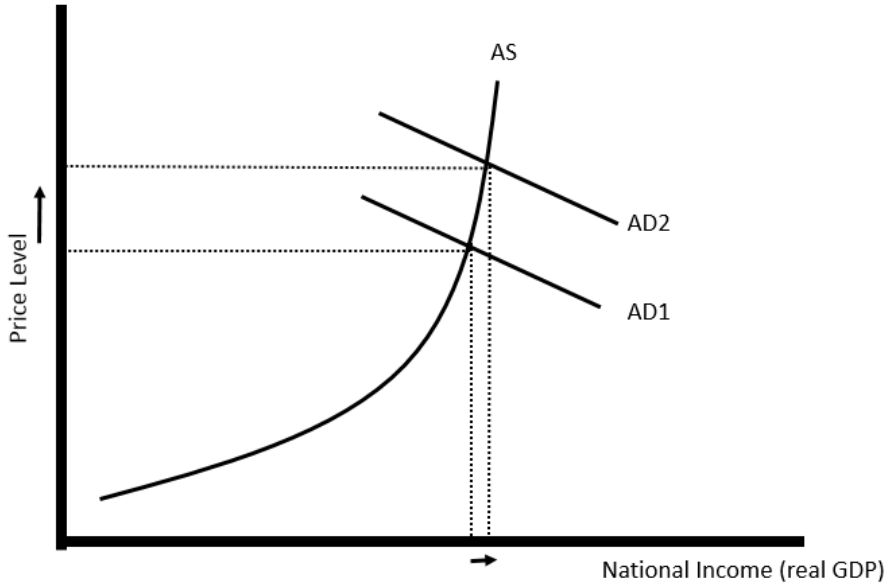


Figure 7 The effect of a change in the aggregate demand

2) Cost-push inflation – This type of inflation occurs when the cost of resources (means of production) increase in the economy. Such costs include higher wages which does not reflect in the productivity and higher import prices. When producers experience an increase in costs, they can no longer provide the same number of goods and services as before. Hence, the aggregate supply decreases. This is shown in Figure 8 where the aggregate supply curve shifts to the left from AS to AS1. Furthermore, the producers tend to transfer the costs by increasing the prices of their products. So ultimately, the households (i.e. the customers) are carrying the burden of the increased costs. The prices increase from P to P1 and the output in the economy shifts from Y to Y1 (Deodhar 2012).

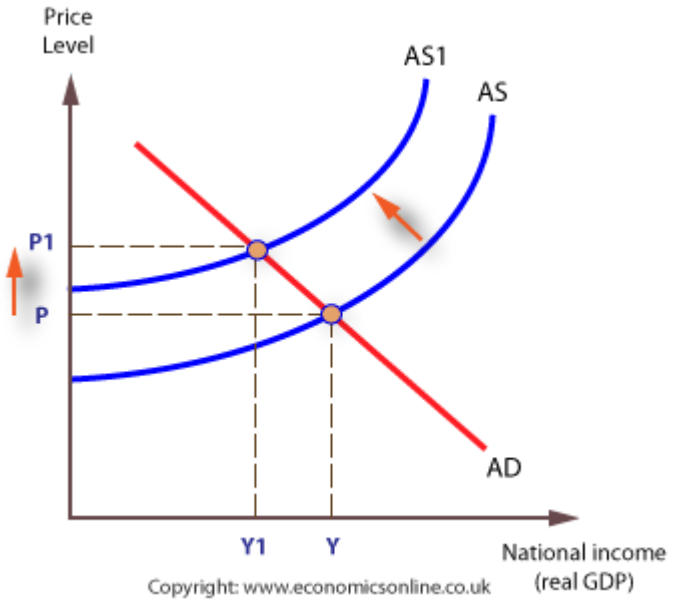


Figure 8 The effect of a change in the aggregate supply

3) Monetary inflation – This is a variation of demand-pull inflation. Monetary inflation occurs when changes in inflationary monetary policy take place. This includes increasing the money supply in the economy. If the money supply increases, then the aggregate demand also increases as households will have more money to spend. This, in turn, leads to higher prices for goods and services. Thus, demand-pull inflation takes place (Gillespie 2007).

So, when people have more disposable income (or more money at hand), they want to buy more. But the supply of goods is only so much. Hence price increase in the market and again, we have inflation at hand.

2.7.2 Why is inflation so important?

Inflation causes numerous problems in the economy. Therefore, inflation is always taken into account when we need to calculate something in real terms in economics.

Inflation leads to a rise in the menu costs. The costs that the firm incur just to update the prices of their products are called menu costs. This may include costs spent to rewrite the quotations, changing the prices in ERP system, re-printing the list prices of the products, writing letters to customers and so on. Secondly, inflation causes shoe leather costs. When inflation occurs, the buying power of money is reduced. Then, people want to spend money to buy something of value, which they perceive, will hold good (rather than keeping their money in banks). So, they try to search for better investments which they think will give better returns. There are costs associated with this ”searching” for these more ”lucrative” investments. These costs are known as shoe leather costs.

Usually, households are worse off during inflation. This is because, generally, they are not able to negotiate their salaries in the short run owing to the fixed contracts at work. The rate of inflation tends to be higher than the rate of growth in their salaries. Therefore, in real terms, they are able to afford and hence, purchase less goods and services than before.

In addition, inflation has an adverse effect on international trade. If prices of the general goods and services, produced in a particular economy have increased, then those products will appear uncompetitive when compared to foreign goods and services. If households start to buy products produced by other countries, instead of domestically produced products, then this will have an unfavorable effect on the balance of payments of that economy.

Moreover, business confidence gets damaged as people lose hope on the future state of the economy and thus, reduce the investment level. Finally, taxes have little influence from inflation. The tax brackets are not usually adjusted to inflation. Sometimes, households receive increased salaries to match the inflation in the economy, but then they enter into a new (higher) tax bracket. Therefore, in overall, they are worse off because, they not only have to purchase less goods and services but also need to pay higher taxes (Gillespie 2007).

2.7.3 How to control inflation

We have seen earlier in this chapter that there are three main causes of inflation. We have also discussed why inflation is considered a serious issue. Since there are problems evolving from inflation, there are also remedies for these problems. The following list will discuss a few major remedial actions that economists and experts can take for inflation:

1) Deflationary fiscal policy – This is usually used for demand-pull inflation. Generally, the government cuts spending, which means no new projects come up, hence no new jobs are created. Hence, the demand for goods and services in the market do not increase. The main objective is to reduce the aggregate demand in the economy. If the aggregate demand is decreased, then, in the short run, producers do not need to increase the prices due to lack of resources to meet the increased demand.

2) Restrictive monetary policy – This is targeted at monetary inflation. Experts take actions such as reducing the money supply or increasing the interest rate to curb inflation. Hence, people will be more prone to save their money in banks and earn higher interests than earlier. So, the demand for goods and services will eventually reduce. This will eventually lead to a reduction in aggregate demand and then will have to same effect as the discussed in deflationary fiscal policy.

3) Reducing costs – This strategy is used for controlling cost-push inflation. By reducing costs, firms will not necessarily pass the costs onto the con-

sumers through higher prices. Therefore, there will be no cost-push inflation.

4) Setting inflation targets – A government can set targets for inflation and work accordingly. Relevant state organizations will consider the target as a limit for the economy.

From the above discussion, we can conclude that higher wages, increased costs and cost-push inflation are related to each other. They behave like a spiral as depicted in Figure 9. When there is an increase in costs, there will eventually be inflation resulting from it (as explained earlier). In order to meet that inflation, workers will demand for higher wages since they are also the consumers. This again increases costs for the producers and increases the rate of inflation once more. The same cycle continues.

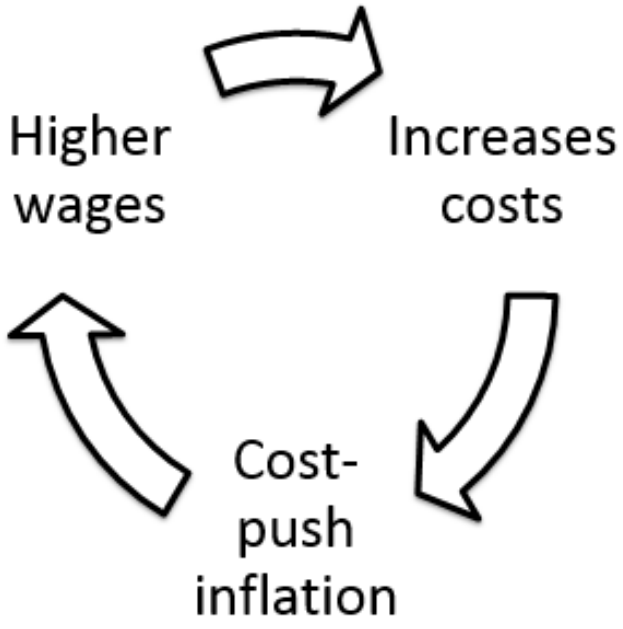


Figure 9 The wage-price spiral

From the above discussion, it is well understood that inflation plays a big role in influencing marginal propensity to save (MPS). Households will save less during high inflationary periods. This happens because simply prices go up and they need more money to consume. Also, as buying power of the money reduces, people rush to spend their money to buy something of ”value” instead of saving their income.

Keywords Economy, Consumption, Spending, Saving

2.8 Unemployment

Unemployment is a major factor that needs to be taken into consideration when we are assessing the spending and saving behavior of a population. The spending and saving patterns change for an individual when the individual becomes unemployed. Therefore, the topic of unemployment needs to be discussed.

What do we mean when we say that a person is unemployed? A person is termed as "unemployed" when he/she cannot find a job for himself/herself even though he/she is willing and capable to work (Gillespie 2007). Claiming someone unemployed can be tricky and there are various methods to do so. The most common ones are the monitoring the claimant count and conducting the labor force survey. These are the terms used in the United Kingdom. However, these terms can change from country to country.

The number of persons who have filed for receiving unemployment benefits from the government is termed as the claimant count. This can be considered an ambiguous method of determining how many unemployed people reside in an economy because the circumstances behind claiming the unemployment benefits can differ for every household. In addition, most of the times, the ruling governments keep modifying the rules as to the conditions under which the unemployed people can claim for these benefits. A more accurate method of ascertaining the number of unemployed people is to conduct the labor force survey (Gillespie 2007).

With the results gained from these methods, experts generally tend to find percentages related to unemployment. The most common ratio derived is the rate of unemployment. We get this result from dividing the number of people unemployed by the labor force. The sum total of people who are capable and willing (hence, productive) to work, which includes both employed and unemployed in the economy in question is termed as the labor force (Hubbard et al. 2013).

2.8.1 Types of unemployment

There are many causes of unemployment. They are explained as follows:

1) Cyclical unemployment – This occurs when there is a decrease in aggregate demand for the goods and services in the economy, for instance: during an economic recession. The demand for labor is a derived demand which means that labor is only demanded when the goods and services sold in the economy are demanded (Gillespie 2007).

   Therefore, if an economy undergoes a recession, then the overall demand for the goods and services drop. Producers will have excess supply of products and notice that the production capacity has to be decreased. When they are decreasing the production capacity, they might have excess labor for which they have to pay salaries/wages. This becomes an unnecessary cost for the producers. Hence, they lay off workers.

2) Structural unemployment – This is a serious type of unemployment which needs attention. This occurs when the overall industry is not performing well. The reasons behind the industry is deteriorating is because of competition from foreign countries or technological changes which made the product sold by the industry obsolete (Begg et al. 2008: 527).

   The factor that is a major concern in structural unemployment is that the workers who have been made redundant will most likely face difficulties in finding another job. These workers were trained to work in this industry and possess skills to serve this industry. They will need retraining in order to join another industry. Workers (particularly older workers) are usually demotivated since retraining requires time and might appear tedious (Begg et al. 2008: 527).

3) Seasonal unemployment – This type of unemployment occurs when it is not the relevant season for employment. A perfect example would be in the tourism industry, e.g. ski resorts. There might be more employment in ski resorts during winter since hotels, shops, etc. need assistance to handle

numerous customers. However, they may not need assistance in the summer. Therefore, they may lay off workers during summer.

4) Frictional unemployment – This occurs when a person has left his/her job and is looking for a better one. So he/she is in between jobs. This is not a big problem in case the person gets the next job easily. But, if the person is stuck and cannot get hold of a job, this becomes a major cause of concern. The problem occurs when he/she is stuck and cannot find a job. The longer he/she waits, the more difficult it gets to find employment ((Begg et al. 2008: 527).

2.8.2 The costs of unemployment

Unemployment is unfavorable in all aspects. The most significant reason is because it causes inefficiency in the economy. If resources are not used up to its full potential, less goods and services will be produced. The downward multiplier effect starts off if less output is being produced as cyclical unemployment takes place. This is because less income is gained by the producers and workers. If the producers incur a decrease in income or a loss, then in order to cut some of the costs, they might lay off some workers. This lowers the living standards of the workers. They will now consume less goods and services than before. This way the multiplier effect continues (Begg et al. 2008: 536).

The government will also face problems when the economy experiences a significantly high unemployment rate. Unemployment has two adverse effects on the government. Firstly, the government will receive lower revenue from taxation. This is due to incomes from the households will fall in lower tax brackets and thus, lower percentages will be charged. Tax revenue is one of the main sources of income for the government. If the government receives lower revenue, it will have problems allocating enough resources in the future projects that it plans to undertake. Secondly, government spending increases in these situations. It is obliged to spend resources on unemployment benefits to support the households. In addition, to boost economic growth, the government increases spending on projects to improve the infrastructure (e.g. build roads, bridges, etc.). The government becomes

worse off, as now government gets less revenue (due to lower production), but has to spend more, by way of giving out more unemployment benefits.

Increase in unemployment causes the overall confidence in the economy to wane. Less investment takes place in the economy since people do not want to invest in projects which have high probabilities to default.

The costs of unemployment can be categorized into private costs and social costs. The costs that the person has to bear when he/she becomes unemployed are the private costs. This may include lower income, lower morale, higher stress and anxiety. Society, as a whole, also suffers and bears social costs, when unemployment increases. Examples include more free time and higher rates in divorce, suicide and crime (Begg et al. 2008: 536).

2.8.3 Government intervention to control unemployment

As we have seen in the previous section that unemployment generates costs for everyone and leads to an undesirable result. So, the government tries to interfere in the market and attempts to alleviate this issue. It has a lot of tools to use and these tools are classified into the demand- and supply-side policies.

Demand-side policies are used when the government wants to promote demand in the economy. If the government is successful, the demand for goods and services in the economy will increase. Hence, the suppliers will try to produce more to meet the increasing demand and hence they will hire more people. Through the multiplier effect, the unemployment will fall and the economy will revive to a healthier condition. Some tools in the demand-side policy include cutting direct taxes, increasing government spending (also mention in the previous section) and reducing interest spending. These instruments will ultimately lead to a fall in unemployment.

Supply-side policies are those measures taken by the government where it intervenes and bring workers to their ideal workplace, where the workers' skills are used to their full potential. Thus, by using supply-side policies, the government reduces voluntary unemployment. Some tools include investing in training to pro-

vide additional skills, making the benefit and tax system more rigid (so that it becomes less of an option to remain unemployed), reducing the tax wedge and providing information about the availability of jobs (Gillespie 2007).

In conclusion, unemployment is an evil we all should guard and fight against. Unemployment has terrible costs which are borne both by the individuals and society/economy. There are different types and causes for unemployment, as detailed in this chapter. When people get unemployed, they cannot save and invest and the overall economy goes down.

Keywords Economy, Consumption, Spending, Saving

2.9 International trade

International trade is vital for every country. No country can survive independently. The topic of international trade is important in this research as some aspects of global competition affect the spending and saving behavior of a population.

For example, a household might prefer to purchase a product manufactured in a foreign country over a domestic equivalent. The reason behind this preference can be because the foreign product is cheaper or it is of a better quality than the domestic one.

Therefore, in order to analyze the complete "picture" of the spending and saving patterns, we need to understand the fundamental concepts behind international trade.

2.9.1 Comparative and Absolute Advantage

Trade among the countries is carried out because all the involved countries benefit from the trade at the end. By trading internationally, countries can exploit the resources of other trading partners. Countries trade to take two types of advantages – comparative and absolute advantage.

When country A has less opportunity costs for producing a particular good or a service in comparison to another country B, then Country A is said to have comparative advantage for producing that good or service (Benneth, Coleman & co. Ltd 2015). This means that those countries who have attained comparative advantage will give up fewer resources than other countries (cf. Dransfield 2014, 284-287). For example, if a country has comparative advantage in producing mangoes and another country has comparative advantage in producing oranges, then these two countries can trade the fruits and take advantage of their less opportunity costs.

The theory of absolute advantage is slightly different than that of comparative advantage. When a company has absolute advantage for a good or a service, it means that the country can produce more of the particular good or service with the

given factors of production or it can produce the same commodity with fewer resources. If two countries have absolute advantage for different commodities, then it is beneficial for both of the countries to trade with each other (Dransfield 2014, 284-287).

2.9.2 Exports and Imports

When countries have analyzed their comparative and absolute advantage and have decided to trade with countries who have comparative and absolute advantage in other goods and services, international trade takes place. Export is the term employed to mean all the goods and services that a country produces within its boundaries but sells to other countries (Hubbard et al. 2013, 330). Goods can be transported by ships or by air-freight. Services are exported when, for instance, foreign tourists visit the country and pay for services such as dining at restaurants, using public transportation, shopping for souvenirs and so on. Exports are important for any country as it acts as an additional source of income. It increases the aggregate demand for the economy. Therefore, net exports are included in the components of GDP.

The quantity of exports depends on the following factors:

1) The quality of the goods and services produced relative to international competitors – If the quality of the domestic goods and services is better than the foreign equivalents, then it is quite likely that the domestic products will be preferred by foreign customers in the international markets. Therefore, the quality in turn depends on the level of investment made in technology and research and development, the qualifications of the staff and the level of competition faced in the market (Gillespie 2007).

2) Protectionism – This occurs when the government of a country endeavors to limit imports from abroad (Gillespie 2007). The government can place export tariffs, quotas and can also place embargo (these concepts will be discussed in section 2.9.4). The level of exports will decrease for an economy if a key trading member applies any of the protectionist policies.

3) Exchange rates – This is the value of one currency in terms of another (Gillespie 2007). If the domestic currency appreciates (or the foreign currency depreciates), then it becomes more expensive for importers to purchase the same quantity of exports as they did before. Therefore, exports will decrease. On the other hand, if the domestic currency depreciates (or the foreign currency appreciates), then it becomes less expensive for importers to purchase the same quantity of exports as they did before. In this case, exports will increase.

4) Customer preferences – Exports also depend on the tastes and preferences of the customers. If the foreign customers like the quality of the domestic goods and services, then they would not change their buying habits if there is a slight change in the prices (Gillespie 2007).

5) Income levels abroad – If the income levels are raising abroad then the aggregate demand for general products will increase. This also includes imports (or domestic products). Foreign customers will have more disposable income and will be likely to purchase more than before. If the foreign customers prefer imported products over local ones, then exports for the domestic country will increase (Gillespie 2007).

Similarly, import is the term employed to mean all the goods and services produced in other countries and the economy in question buys them from those countries (Hubbard et al. 2013, 330). When a country imports products, the aggregate demand in the economy decreases as the money flows out of the country. Therefore, while calculating the GDP, we take the net exports (i.e. the difference between exports and imports) into account. The level of imports depends on all the above points mentioned for exports. Imports will depend on the quality of foreign products compared to the domestic ones, level of government restriction on free trade, exchange rates and preferences of the domestic customers for foreign products. It also depends on the domestic economy's marginal propensity to import and the domestic income levels.

If in a particular period, an economy sells more (value-wise) to other countries than it buys from them, the economy is said to have a trade surplus. But if it buys from other countries than it sells to them, it has trade deficit.

2.9.3 Exchange rate systems

Exports and imports depend a lot on the exchange rates as these are the prices the exporters and importers will examine when they want to decide if they want to trade with another country. Exchange rates are determined by two main methods – the floating exchange rates and the fixed exchange rate system.

The floating exchange rate system helps to determine the exchange rate through the demand and supply of a particular currency. The level of demand and supply of a currency depends on factors such as the overall foreign demand for domestic goods and services, interest rates, relative inflation rates and expert speculation. The point where the demand for and the supply of a currency meets is the exchange rate of the currency in terms of another currency (Dransfield 2014, 302).

In the floating exchange rate system, there is no government intervention in determining the exchange rate. This has its benefits since there are no intervention costs involved and the rate adjusts automatically to the market. On the contrary, this exchange rate system has a few drawbacks. Since the value of the currency alters automatically to the market conditions, it is very difficult for stakeholders to plan ahead and this leads to investors dissuading investment (Gillespie 2007, 399).

In a fixed exchange rate system, exchange rates are determined through government intervention. The government applies three instruments to intervene with the exchange rate (Dransfield 2014, 303).

Firstly, the government uses reserves to attain the desired exchange rate. If the government wants to devaluate the currency, it does so buy selling the currency held in its reserves. Whereas, if the government wants to reevaluate the currency, it purchases the currency from the market (Gillespie 2007).

The second instrument that the government uses is the interest rates. When the interest rates increase, the level of overseas investment increases. This is because foreign investors notice that they will earn a higher return in the country rather than in their country. The reverse occurs when the interest rates are decreased (Romer 2012).

The final weapon that a government can use is the reflationary or deflationary policies to impact the demand level of the country. This would mean decreasing the overall aggregate demand. When the overall aggregate demand is reduced, it affects the domestic demand for imports. As a result, ceteris paribus, the net exports will increase in this situation (Gillespie 2007).

The benefits of a fixed exchange rate system are that it removes unpredictability for traders and it makes it easier for investors to plan their investment. However, some of the decisions taken by the government might impede other economic goals that the government strives to achieve. In addition, transaction costs are involved in the fixed exchange rate system which means that the government has fewer resources to allocate in other areas in the country (Gillespie 2007, 400-401).

2.9.4 Protectionism

Since international trade creates opportunities for certain industries and brings additional benefits, one might think this is a mutually favorable situation. However, there are some governments that try to shield their countries from global trade. As mentioned earlier, protectionism is the term used when a government tries to limit imports to enter its country (Gillespie 2007).

There can be numerous reasons why a government limits international trade. They are explained in the following list:

1) Retaliation against other countries – Sometimes, a government sets limits on imports when it wants to retaliate against a government from another country. A reason for this can be because the foreign government might have limited their imports (Gillespie 2007).

2) Independence for strategic industries – A government would like to protect industries such as weapon, food and medicine industries so that they are self-sufficient during crisis and do not need to be dependent on other countries (Hubbard et al. 2013, 352).

3) Infant industry argument – When industries are new and young in an economy, the government tries to protect it from the international giant firms which are highly efficient and competitive can steal customers away from the local, young firms. The infant industry can find it difficult to survive in fierce competition. Thus, the government tries to provide a less competitive market for the industry to grow and experience economies of scale (Hubbard et al. 2013).

4) Employment sustenance – International trade can impact with a major disadvantage of unemployment for some countries. People tend to lose their jobs since the industry they worked in is longer efficient. Therefore, in order to protect the citizens' job, the government restricts the importation of goods and services (Hubbard et al. 2013).

Now that we know the reason behind the protectionism, the methods used to protect the local industries will be discussed. The methods are explained in the list given below:

1) Tariffs – Tariffs are taxes on the foreign goods and services that are levied at the time of entering the domestic market (Hubbard et al. 2013).

2) Quotas – Quotas are physical limits placed on products from a particular country (Hubbard et al. 2013).

3) Legal restrictions – A government can apply more regulations on foreign products so that it is difficult for the importers to import into the country (Gillespie 2007).

4) Embargo – This is an order taken by the government to restrict trade completely with a country (Investopedia LLC, 2016).

5) Voluntary export restraints – This occurs when the exporting country voluntarily places a limit on the quantity of products to be exported (Hubbard et al. 2013).

When implemented by the government, these methods are supported by the domestic producers as the government protects them from foreign competition. The only stakeholders who face the drawbacks are the consumers because they have to face the consequences and pay higher prices for the foreign products.

To summarize, it is important to study the international trade in respect of an economy, in order to analyze the saving and spending behavior of people. If the domestic industry does not produce particular goods and services, or produces them with bad quality, people tend to buy them from foreign countries, even paying high prices. Also the exchange rate of the currencies of the trading countries play a very important role to analyze the total spending on imports. Same goes for exports, which leaves people of exporting countries with more disposable income, either to spend or to save and invest.

Keywords Economy, Consumption, Spending, Saving

3 FINLAND – A CASE COUNTRY

In this chapter of the thesis, the previously mentioned economic concepts will be applied to one particular country – Finland. Recent graphs from authorized organizations that show the economic performance of the Finnish economy will be presented.

3.1 Introduction

Finland is a country situated in northern Europe. It shares its borders with Sweden in the west, Norway in the far north and Russia in the east. It has a population of 5.5 million people and majority of its citizens are settled in the southern regions of the country. Finnish is the official and national language but a small number of people also speak Swedish, Russian and other languages.

Finland has been a capital-intensive country which had a strong focus on the manufacturing sector. Previously, the country was highly competitive in wood, metals, engineering, telecommunications and electronics industries. It was also very competent in exporting technology for mobile phones and other ICT products. On the other hand, it is dependent on imports for raw materials, agricultural goods and energy. The country is limited to producing just a few basic agricultural products due to climatic conditions. (The World Factbook: Finland. 2016).

Finland had a stable economy before the financial crisis occurred in 2009. It has tried its best to combat the crisis but the exports and the domestic demand were negatively affected during that period. Currently, the country faces challenges to boost international competitiveness and to correct the rapidly aging population. Finland has been an EU member state since 1995 and adopted the euro in 2002. (European Commission 2011.)

In the next few sections, I will be presenting graphs which will illustrate the economic trends of Finland. I will be also compare the economic performances of Finland with those of its neighboring countries in order to evaluate the economic position of the country.

3.1.1 GDP trends

According to the Central Intelligence Agency of the United States, Finland's GDP is composed as shown in the pie chart in Figure 10. Approximately seventy percent of the GDP stems from the service industry. When a major percentage of a country's GDP is contributed by the service industry, the country in question is considered a developed country. Therefore, with regards to the former statement made, Finland is considered a developed country.

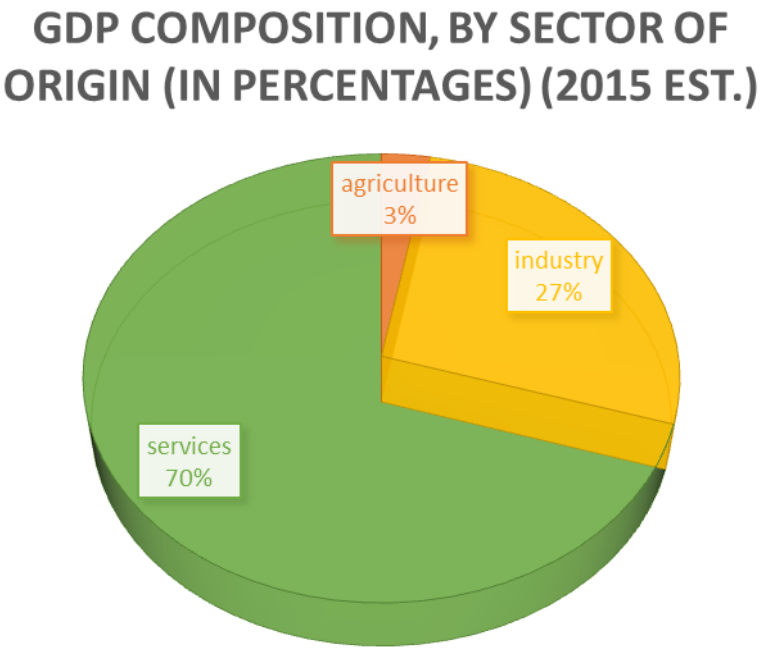


Figure 10. GDP Composition by sector

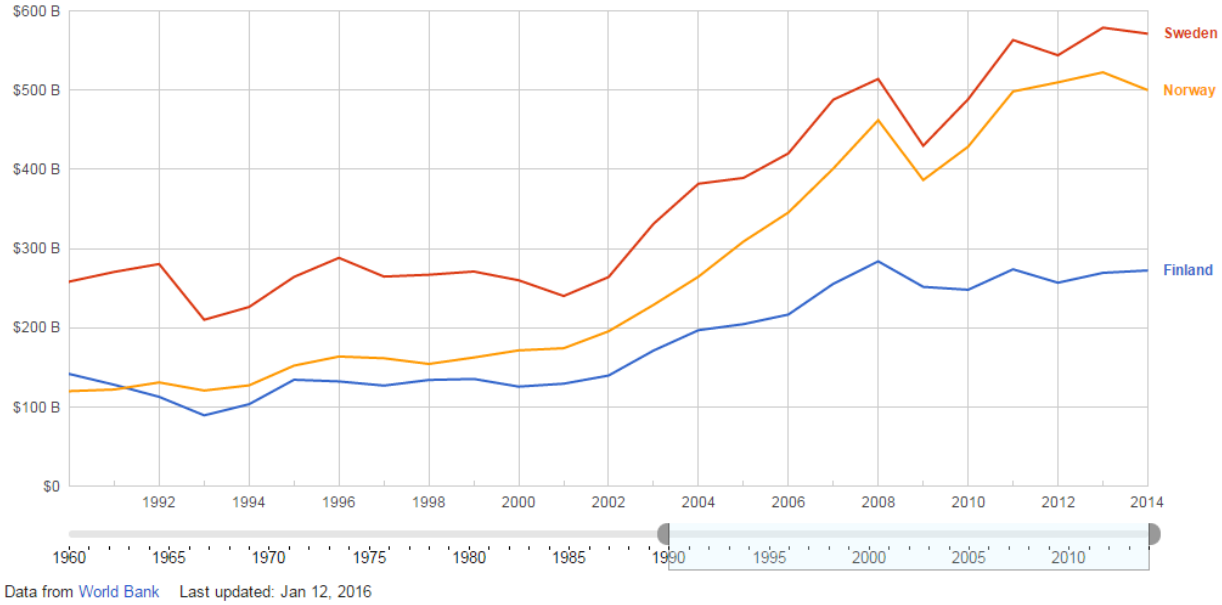


Figure 11 GDP for Finland, Sweden and Norway (in US $)

According to World Bank, Finland's GDP was recorded to be approximately $272 billion in 2014. Sweden had a GDP of approximately $571 billion while Norway earned approximately $500 billion, as shown in the graph in Figure 11. According to the graph, Finland's economic performance was considerably lower than its neighbors. In addition, although Finland has recovered from the 2009 financial crisis (shown in Figure 12), the economic growth seems to remain stagnant in 2015. However, the European Commission in the EU has predicted that Finland will have a meager increase in the economic growth from 2016 and onwards as shown in Figure 13.

Keywords Economy, Consumption, Spending, Saving

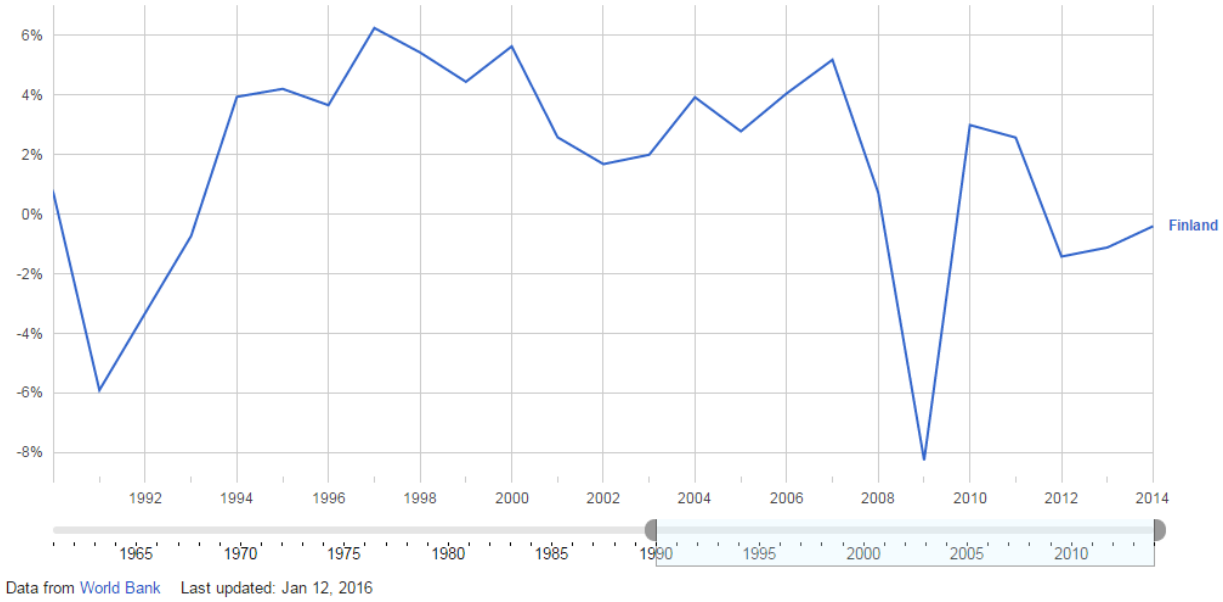


Figure 12 GDP growth rate of Finland (in %)

European Economic Forecast Winter 2016				
Forecasts for Finland	**2014**	**2015**	**2016**	**2017**
GDP growth (%, yoy)	-0,4	0,0	0,5	0,9
Inflation (%, yoy)	1,2	-0,2	0,1	1,5
Unemployment (%)	8,7	9,5	9,4	9,3
Public budget balance (% of GDP)	-3,3	-3,2	-2,8	-2,5
Gross public debt (% of GDP)	59,3	62,7	65,0	66,2
Current account balance (% of GDP)	-0,9	0,0	0,4	0,7

Full forecasts for Finland

4 February 2016
European Commission
Institutional Papers 20 | 2016

Figure 13 Economic forecasts by European Commission

The GDP per capita (Figure 14) show similar trends for the three Nordic countries as the real GDP in Figure 11. In 2014, Finland had a result of $49 823 whereas Sweden managed to achieve $58 938. Norway, on the other hand, has a GDP per capita of $ 97 307 (Norway has achieved this result owing to their low population). Russia has a result of $12 735 in 2014.

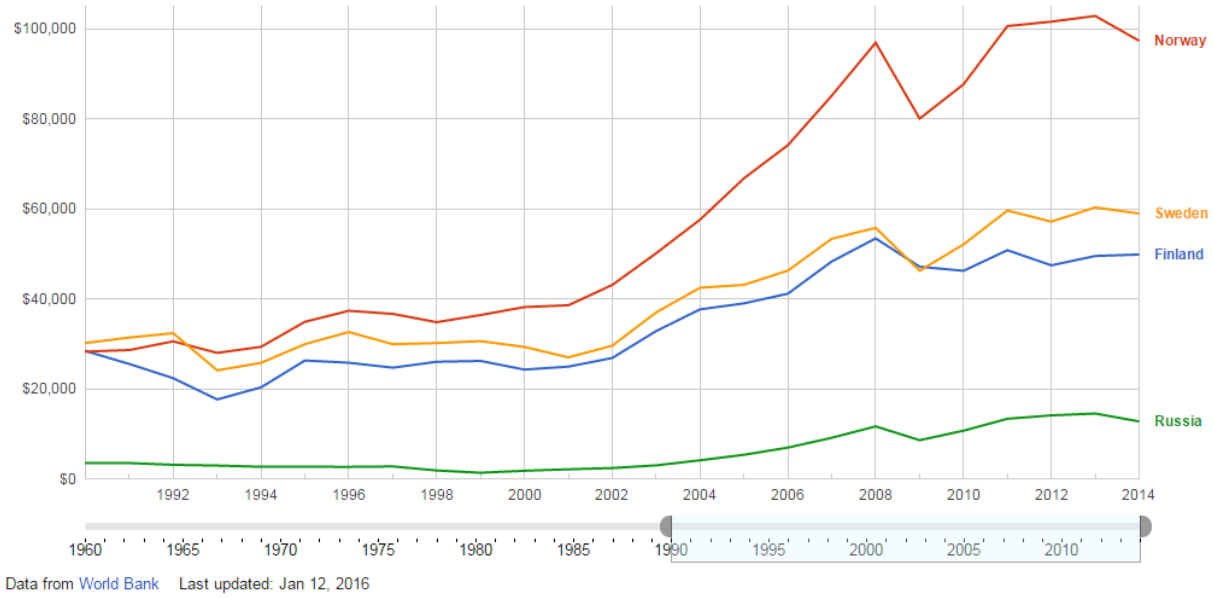


Figure 14 GDP per capita for the Nordic countries and Russia (in US $)

3.1.2 Tax rates for households

In 2015, the Finnish personal income tax rate is 51.6%. This is shown in Figure 15. In this bar chart, one can see that the personal income tax rate had dropped down to about 49% in 2009 during the financial crisis and remained the same in the following years which was the period when Finland was recovering from the crisis. Finland then increased the tax rate to 51% in 2013 and maintained similar tax rates over the years with slight adjustment to inflation.

Figure 15 Finnish personal income tax rate (in %) over time

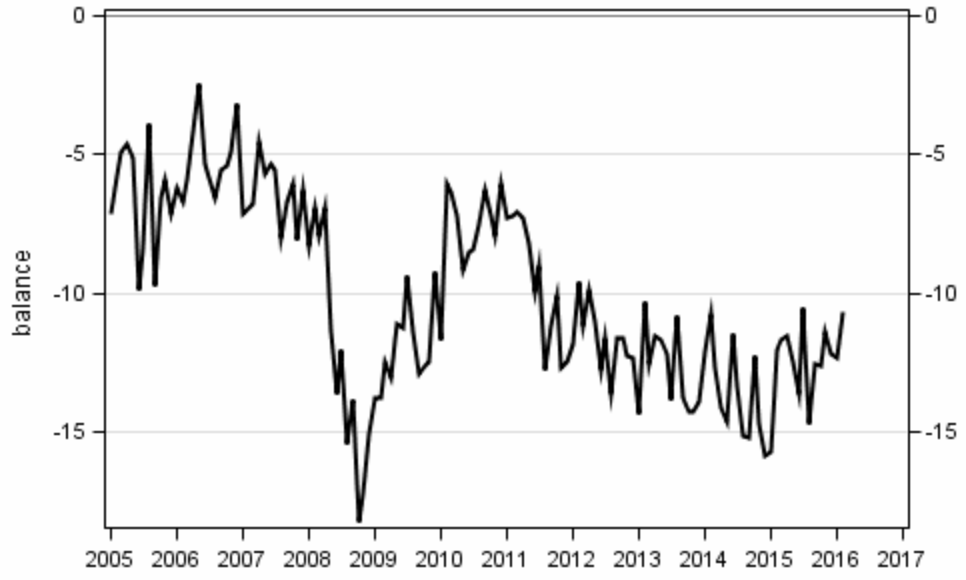
If we consider the income tax, we might think that the tax rate is quite high since around half of the average Finnish citizen's gross salary is being deducted, leaving behind just half of the gross salary being the disposable income. This personal income tax rate is comprised of several different tax rate. Some of the taxes are capital income tax (taxes on investment), state tax, municipality tax and church tax. In Figure 16, an example is shown of an income tax table for state tax for 2016. The table shows different levels of state tax for different income levels.

Income tax table, state income tax on earned income only, for 2016

(In addition to the rates below, municipal and church taxes and the health insurance contribution will be collected at 18-26 %)

Earned income, euro	Tax at the lower limit, euro	Tax rate for amounts exceeding the lower limit, %
16,700 to 25,000	8	6.5
25,000 to 40,800	547.50	17.5
40,800 to 72,300	3,312.50	21.5
over 72,300	10,085.50	31.75

Figure 16. Income state tax table for 2016



Source: Consumer Survey 2016, February. Statistics Finland

Figure 17. Spending on durables

Keywords Economy, Consumption, Spending, Saving

3.1.3 Consumption

According to Statistics Finland, 46% of the Finnish households thought that 2016 was a favorable year to purchase durable products. 19% of them were considering purchasing cars but only 6% were considering investing in real estate. Furthermore, 21% of the households were considering renovating their houses in 2016. This results are showcased in Figure 17 and 18.

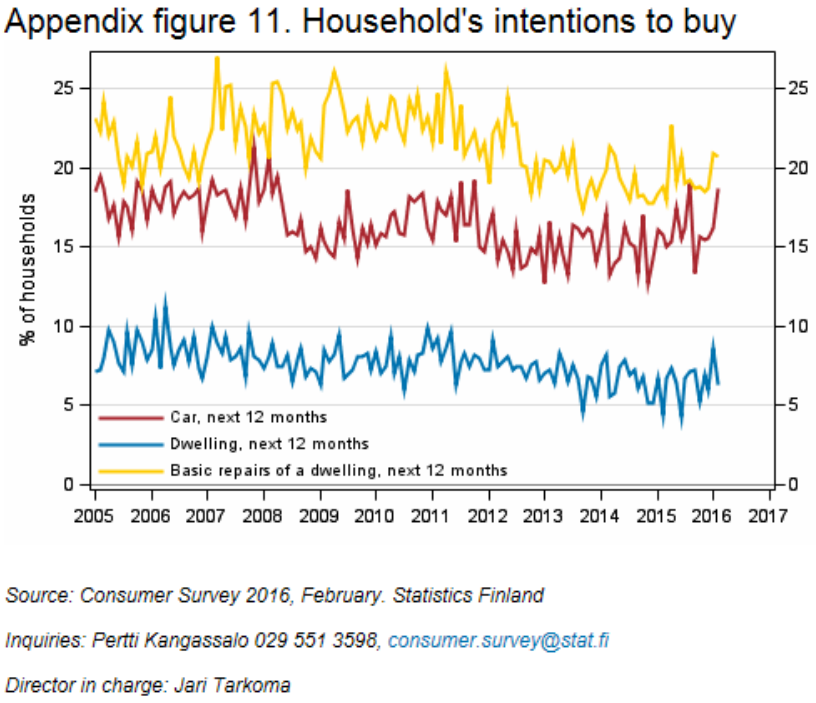


Figure 18. Household's intention to buy in 2016

On the other hand, 53% of the household consider that saving in 2016 is more favorable than spending on durable goods and services. 67% have managed to save and 82% are still considering to save in this year.

63% of the households feel that 2016 is a suitable year for obtaining loans and 12% are considering increasing their loan. A trend in housing loan as a part of income for different households is shown in Figure 19.

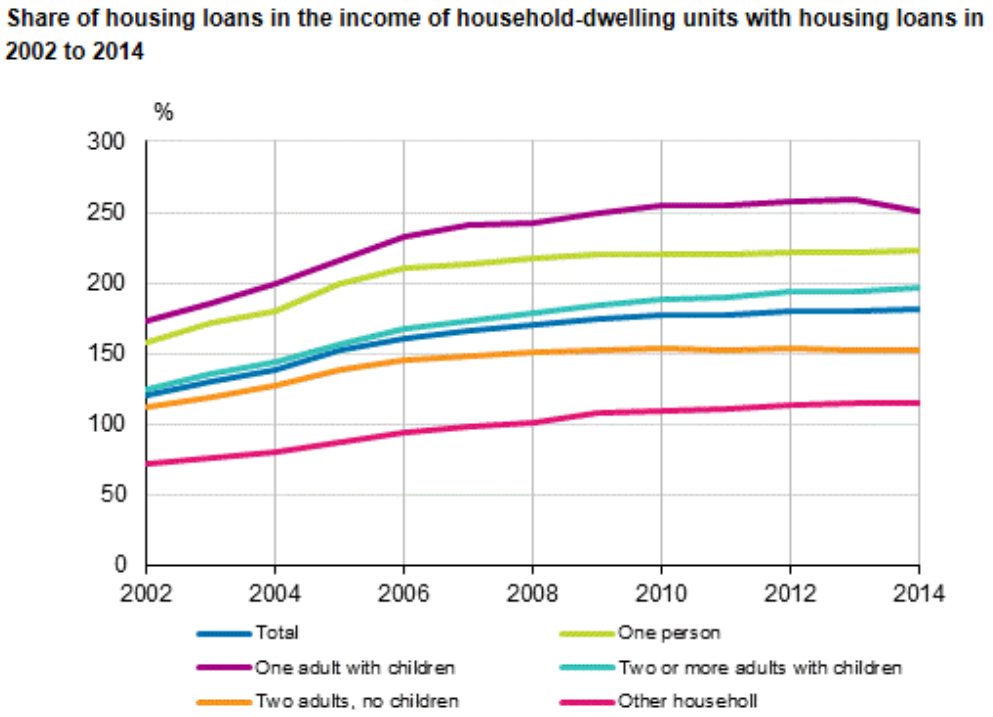


Figure 19. Housing loan trends

Furthermore, in order to study the consumption in Finland, researching about wealth of Finnish citizens from owning assets is necessary. This is because it plays a significant role when a consumer gets unemployed. During unemployment, a consumer might start dissaving and dissaving is initiated by decreasing one's wealth or selling one's assets in order to continue consuming. According to Statistics Finland, wealth is gained from the age of 25. Figure 20 shows the average net amount and total of assets over the life span of an average Finnish consumer.

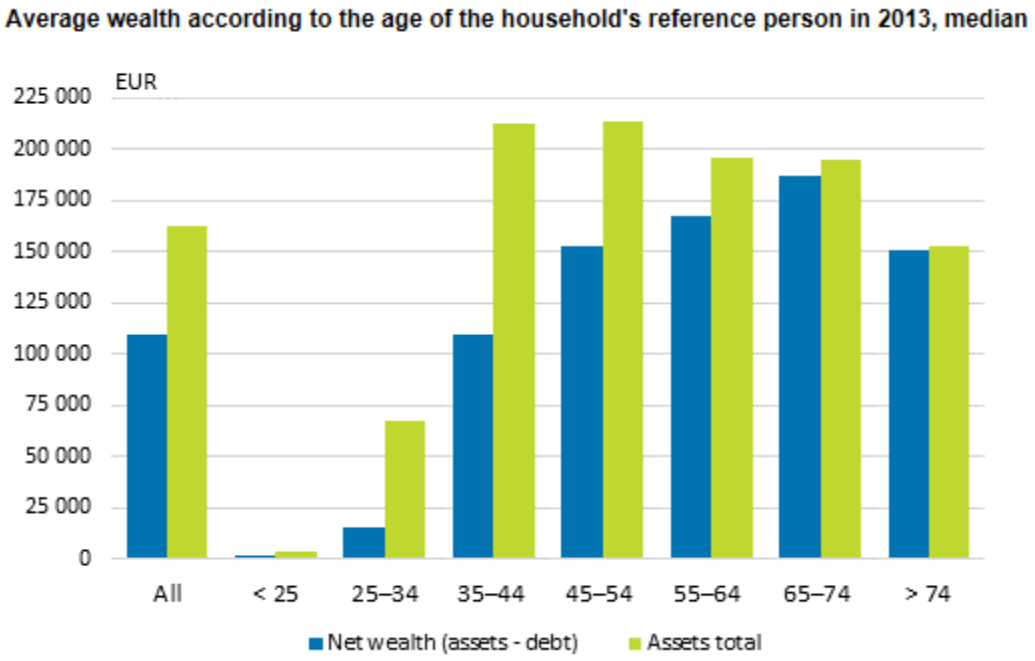


Figure 20. Net and total amount of assets gained by an average Finnish consumer

The consumer confidence is quite varied in different regions of the country and also among different demographic groups. For instance, the Southern area near Helsinki as well as Northern Finland are more optimistic about the economic growth of the country than other regions. The case is quite similar for higher-salaried employees. For they are also confident about the current state of the economy. Whereas, pensioners and unemployed people are worried as they do not expect that the conditions are favoring them (Statistics Finland.).

3.1.4 Production

In 2014, Finland's industrial production was 81.3 billion euros, according to Statistics Finland (see Figure 21 where percentages for different sectors are given based on the output produced in each sector).

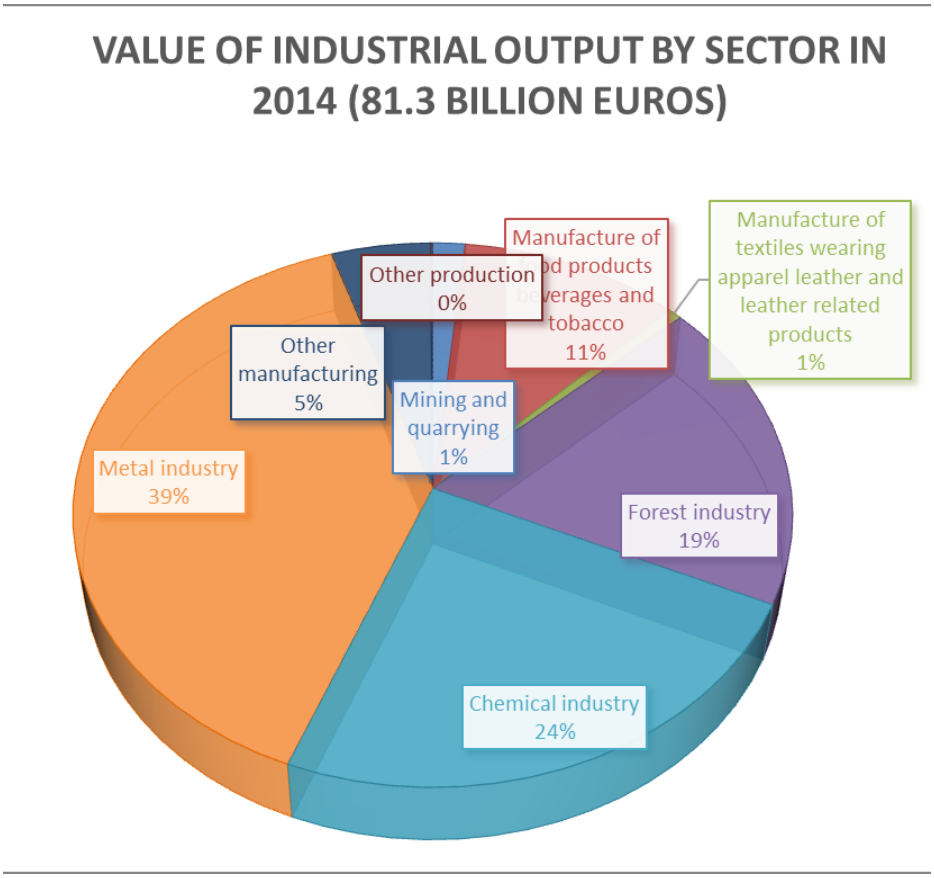


Figure 21. Value of industrial output by sector in Finland

3.1.5 Interest rates

The level of interest rate is determined by the European Central Bank (ECB) of the EU for all member states. Since, Finland is also a member state of the EU, it needs to be in accord with the monetary policy decisions taken by the ECB. Figure 22 shows how much interest rates were charged over time in Finland. Recently, i.e. in 2016, banks are offering 0% interest rate. The consequences and the reason behind this interest rate will be discussed later in the thesis.

Figure 22 Interest rate over time

3.1.6 Rate of inflation

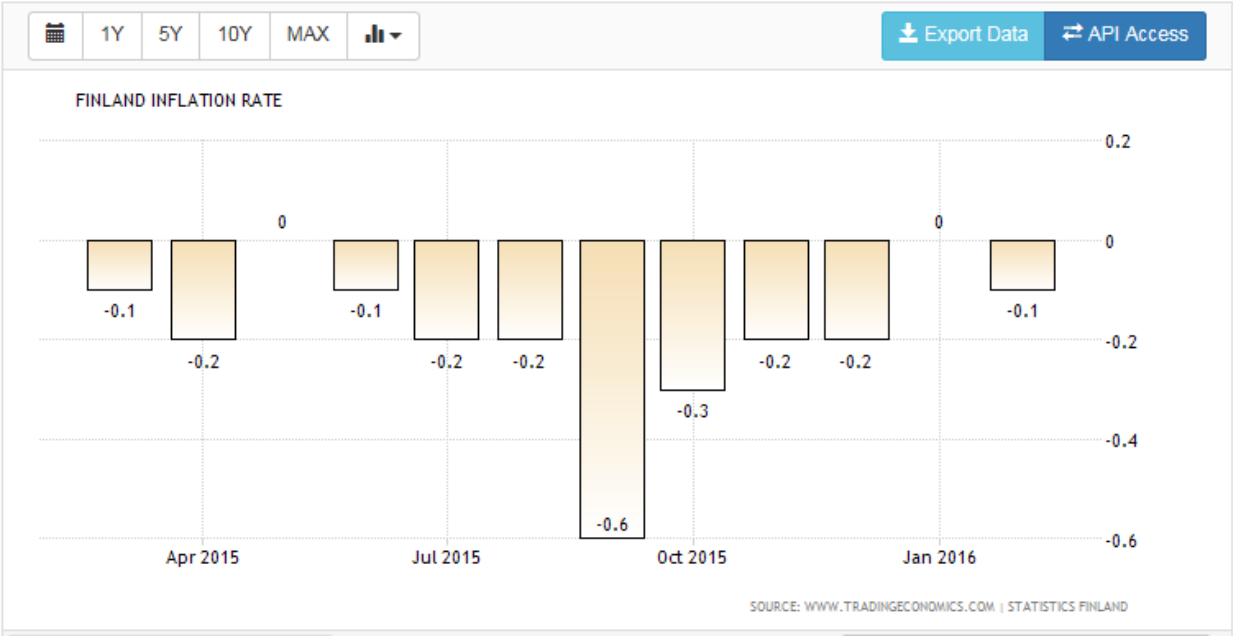


Figure 23. Rate of inflation over time

Figure 23 shows the trend in the rate of inflation over time. Here, the time divided into quarters. From the graph, it can be concluded that is experiencing a negative inflation or deflation since the rate of inflation is slightly below 0. This means that prices in the Finnish economy is decreasing. The consequences and the reason behind this inflation rate will be discussed later in the thesis.

3.1.7 Unemployment rate

As shown in Figure 24, the rate of unemployment is increasing slowly in 2016. The current rate of unemployment is 9.4% in Finland However, the situation is a bit better now compared to the first quarter of 2015.

Figure 24. Unemployment rate over time

3.1.8 International trade

Figure 25 shows the net trade balance from 2002 to 2015. Finland had a positive trade balance (which means that its exports exceeded its imports) until 2010. From 2011, it was more dependent on imports and was unsuccessful in exporting as much goods and services as it had done previously. However, the recent trend shows that the Finnish trade balance is improving from the preceding years.

Figure 26 illustrates a bar chart which divides the net trade balance of 2015 among its main trading partners. Germany, Sweden and Russia have been the country's main trading partners for many years, but surprisingly, this was not the case in 2015. Finland traded more with countries such as United States and United Kingdom. This is shown in Figure 27 where the net trade balance of Finland is divided into country groups.

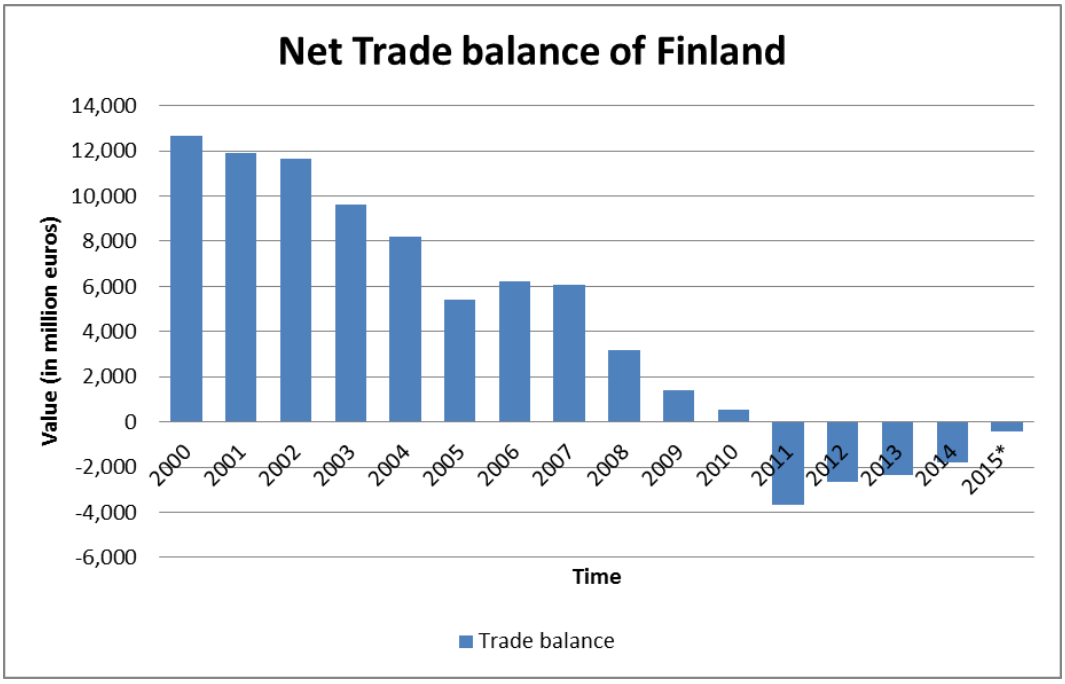


Figure 25. Net trade balance

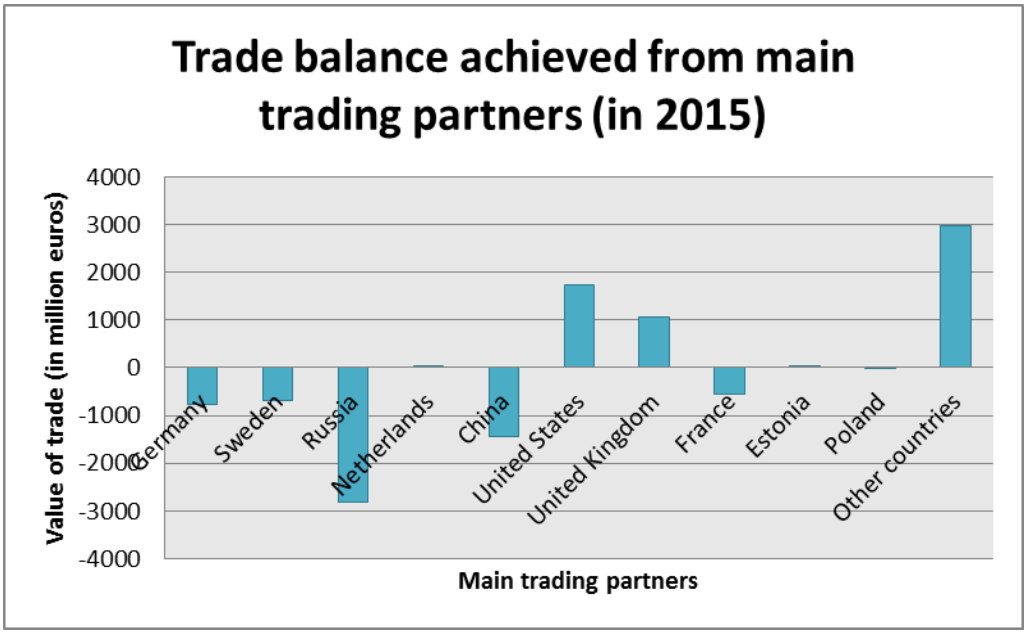


Figure 26. Trade balance from main trading partners (in 2015)

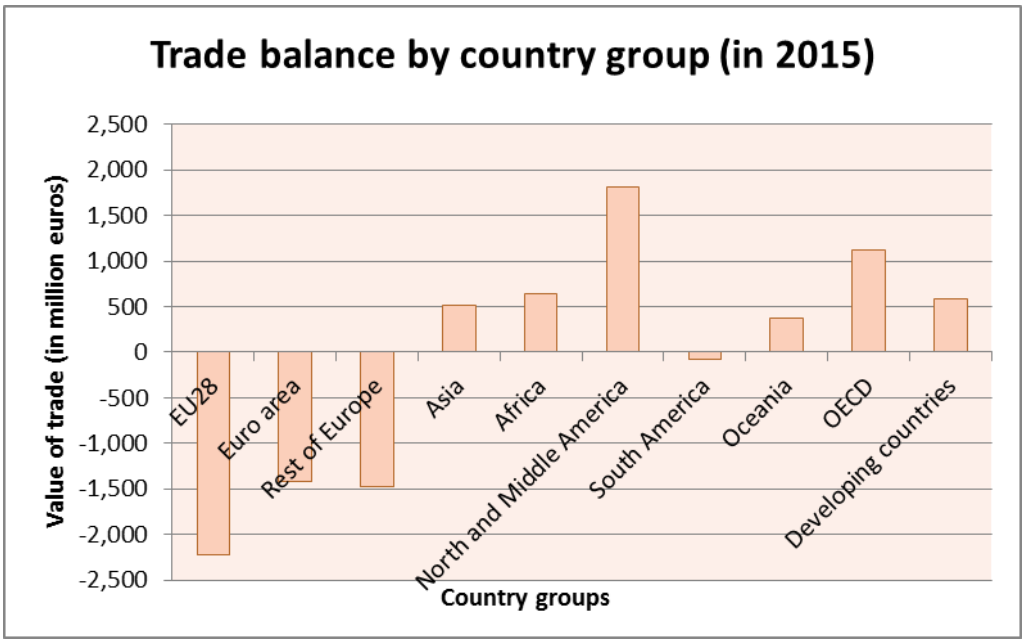


Figure 27. Trade balance by country group (in 2015)

The current economic situation in Finland has now been discussed by using secondary data from authorized sources. This information will be a support when conducting the research about the spending and saving patterns of households in the Finnish economy, for these factors discussed in this chapter affects the consumption behavior of households.

Keywords Economy, Consumption, Spending, Saving

4 RESEARCH METHODOLOGY FOR THE EMPIRICAL STUDY

In this section of the thesis, the methodology used in carrying out the research will be presented and the methodology used in drawing up the theoretical framework will be discussed. The purpose behind this is that it gives the interested person a clear picture of the method of gathering information.

4.1 Research methods

While conducting a practical study, research is needed to outline the research problem, and execute various research strategies to find answers for the research problem. Stimpson and Farquharson (2011, 264) describe research as the process of gathering, classifying and analyzing the pieces of information collected in order to arrive at meaningful conclusion. The purpose of the research is to assist authors, students, professors or simply anyone who is interested in the subject of the research. The reasons behind research can be exploratory, descriptive or explanatory (Saunders, Lewis & Thornhill 2009, 140).

The research is descriptive since descriptive research portrays an accurate profile of persons, events or situations (Robson 2002, 59). Analysis is the main answer of this thesis since the spending and saving behavior of the Finnish population is analyzed.

Sources of data that is collected for research can be classified into two categories – primary research and secondary research. Collection of data directly from the sources (mainly people, by interviewing, survey, etc.) is known as primary research. Secondary research, on the other hand, is gathering data from the sources, published previously (e.g. from trade magazines, government websites and records and internet, historical studies conducted for previous researches, etc.) (Stimpson & Farquharson 2011, 266).

In this thesis, both of these types of data are used. Secondary research has been used to carry out the theoretical framework and to analyze the economic situation

of Finland (which was presented in the previous section). Government publications were used to gather the data for economic factors. The literature used in the theoretical framework were gathered from books, journals and web pages. Whereas, primary data, which was gathered by sending a questionnaire to various people in Finland and hence, gathering their responses (using an internet based survey tool), is used in the empirical study (these results will be presented in the next section).

Research methods can be either quantitative or qualitative. Quantitative process refers to the collection of numerical data (absolute figures, percentages, scales, etc.) whereas qualitative process generates mainly non-numerical data (Saunders et al. 2009, 151).

Quantitative method is used in this research since the research strategy was to conduct a survey by designing a questionnaire. The questionnaire was designed in a way to translate qualitative responses into quantitative ones. The questionnaire was internet-mediated and it consisted of behavioral and attribute variables that is used to draw up the conclusion. The questionnaire designed for this thesis is presented in the appendix.

In the next chapter, more information will be provided regarding the research conducted for the empirical study. The chapter will focus greatly on questionnaire designed and the purpose of it. The results from the survey will be analyzed to come to a conclusion for the research problem.

5 RESULTS FROM THE EMPIRICAL STUDY

The empirical study for this research was conducted with the help of a questionnaire. The questionnaire was web-based. This method was chosen since it was the most convenient way of obtaining the responses from the target group.

The target group of respondents were from two different organizations. The first organization was ABB Oy, a multinational company located in Vaasa, Finland and Vaasa University of Applied Sciences. The reason behind the choice of organizations for sample was driven by many factors. Firstly, I wanted to receive responses from individuals of all ages, employment status and income groups. Secondly, I wanted responses from individuals whose spending behavior would vary.

176 responses were collected from this survey, which was sufficient. I consider this to be quite a large sample size to represent the population of Finland. In this chapter, the results from the questionnaire will be analyzed. First the data is represented through a type of a graph and then an explanation will be provided.

5.1 Results obtained from the questionnaire

The analysis of the results is discussed in this section. First, the relevant areas of demographic factors will be analyzed and then the spending and saving components will be discussed.

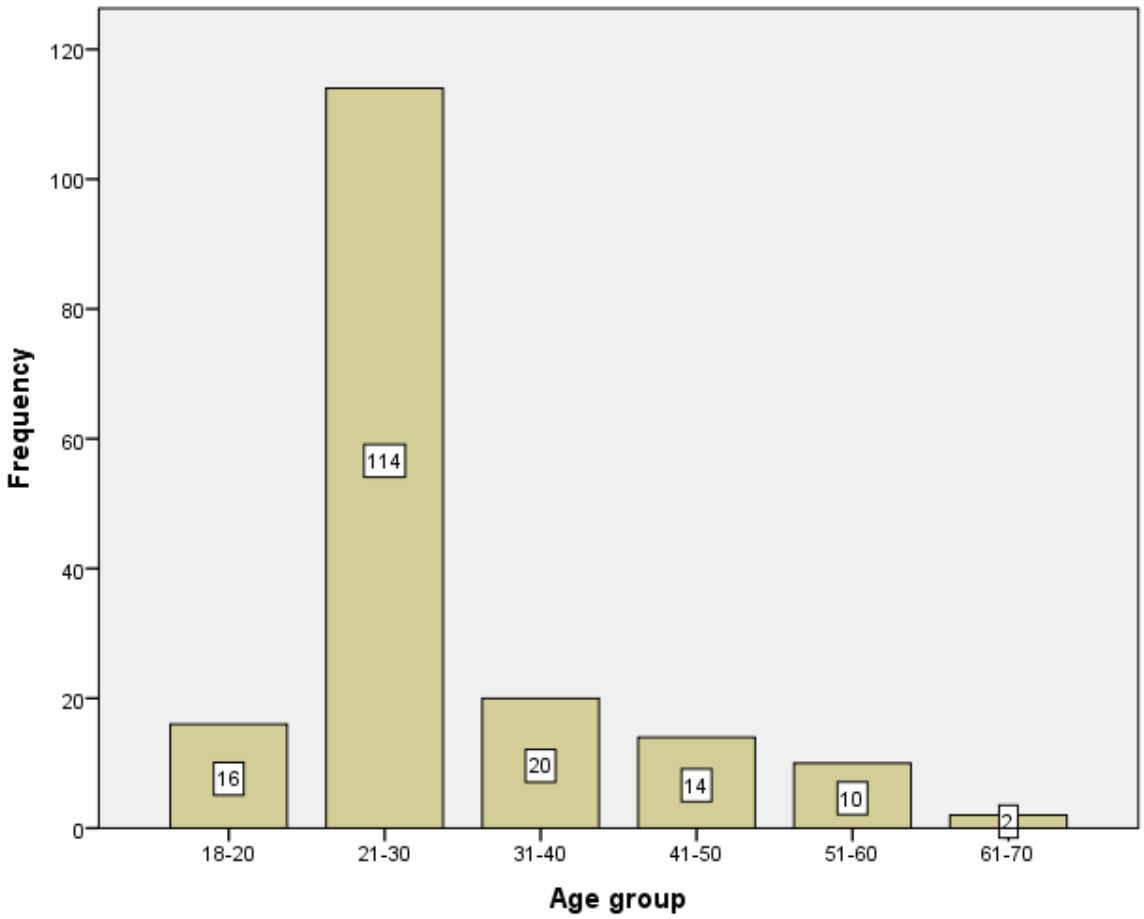


Figure 28. Age structure from the survey

The age structure of the respondents can be seen from Figure 28. It can be observed that the mode of the age group was 21-30. However, two respondents were in the 61-70 age group. This age group has become the outlier in this study. The 21-30 age group in the analysis and conclusions since this age group represents the majority of respondents which will be considered.

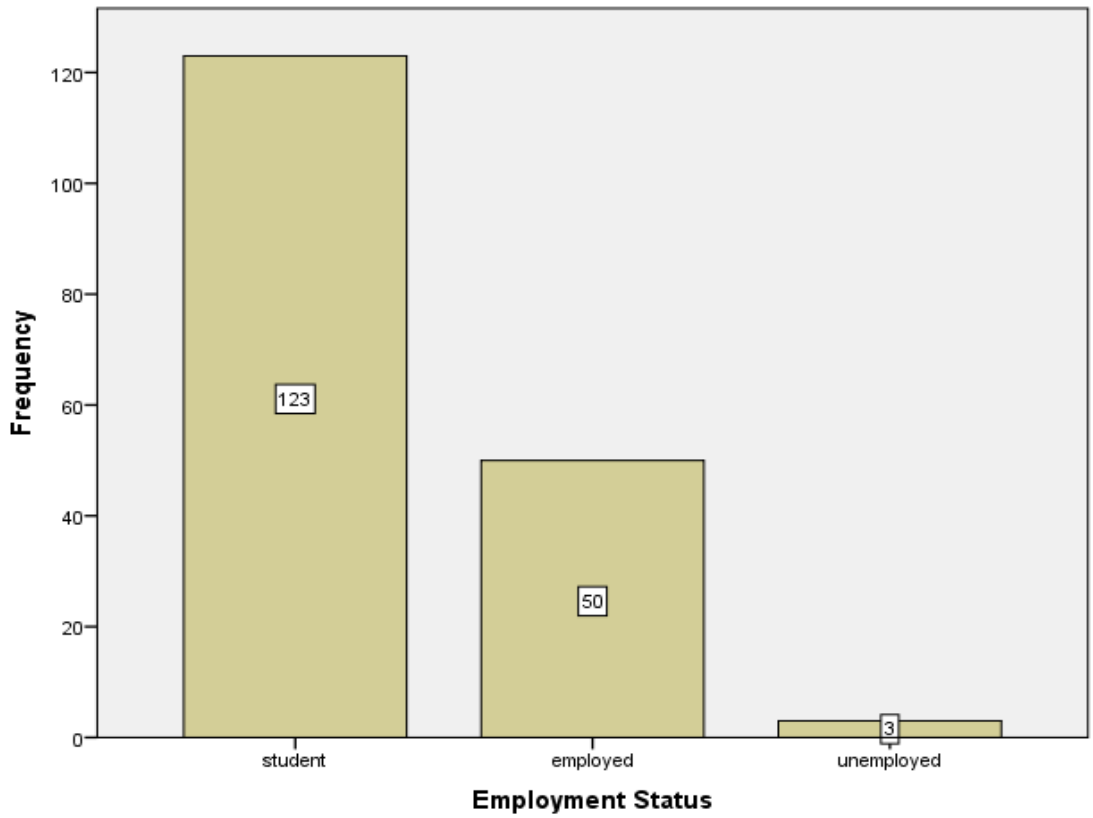


Figure 29. Employment status of the respondents

The employment status of the respondents can be in Figure 29. From the graph, it can be concluded that the majority of the respondents are students. 50 respondents were employed and only 3 of them were unemployed.

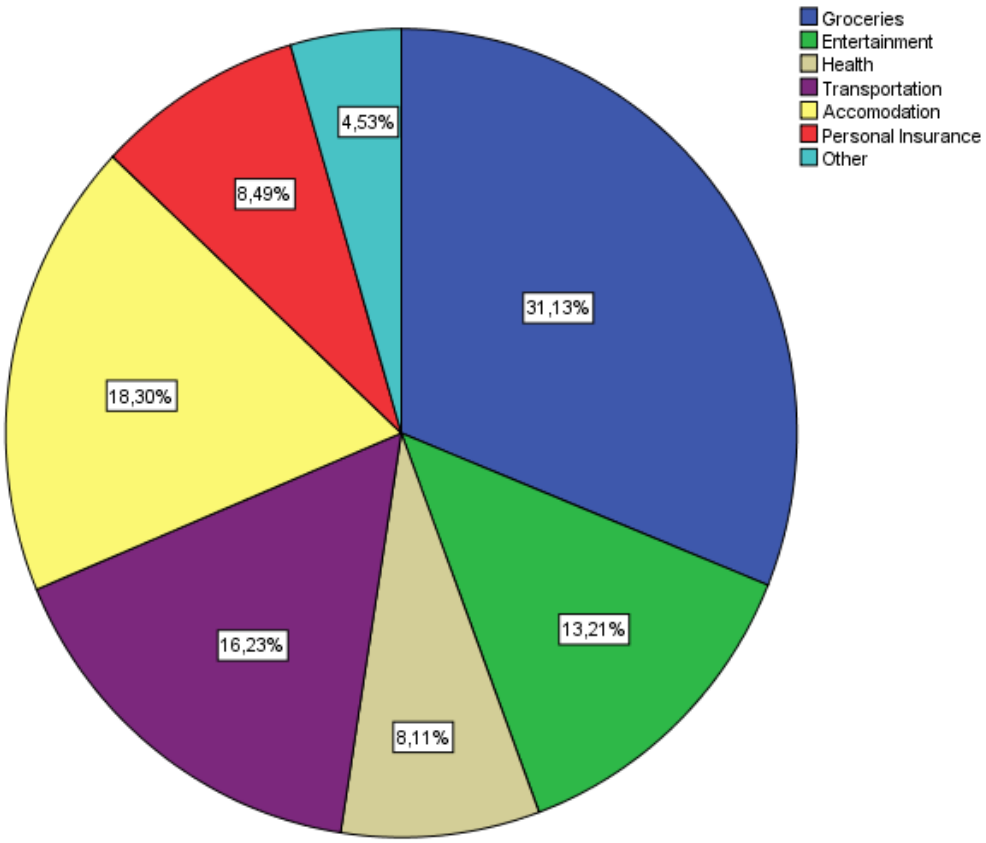


Figure 30. Pie chart for expense op-

The pie chart in Figure 30 shows all the expense options that are presented in the questionnaire. The respondents were given the option to choose one or more categories. In this survey, groceries were chosen 31.13% of the times, transportation was chosen 16.23%, accommodation was chosen 18.3%, entertainment was chosen 13.21%, personal insurance was chosen 8.49%, health was chosen 8.11% and the other expense category was chosen 4.53% of the times.

Keywords Economy, Consumption, Spending, Saving

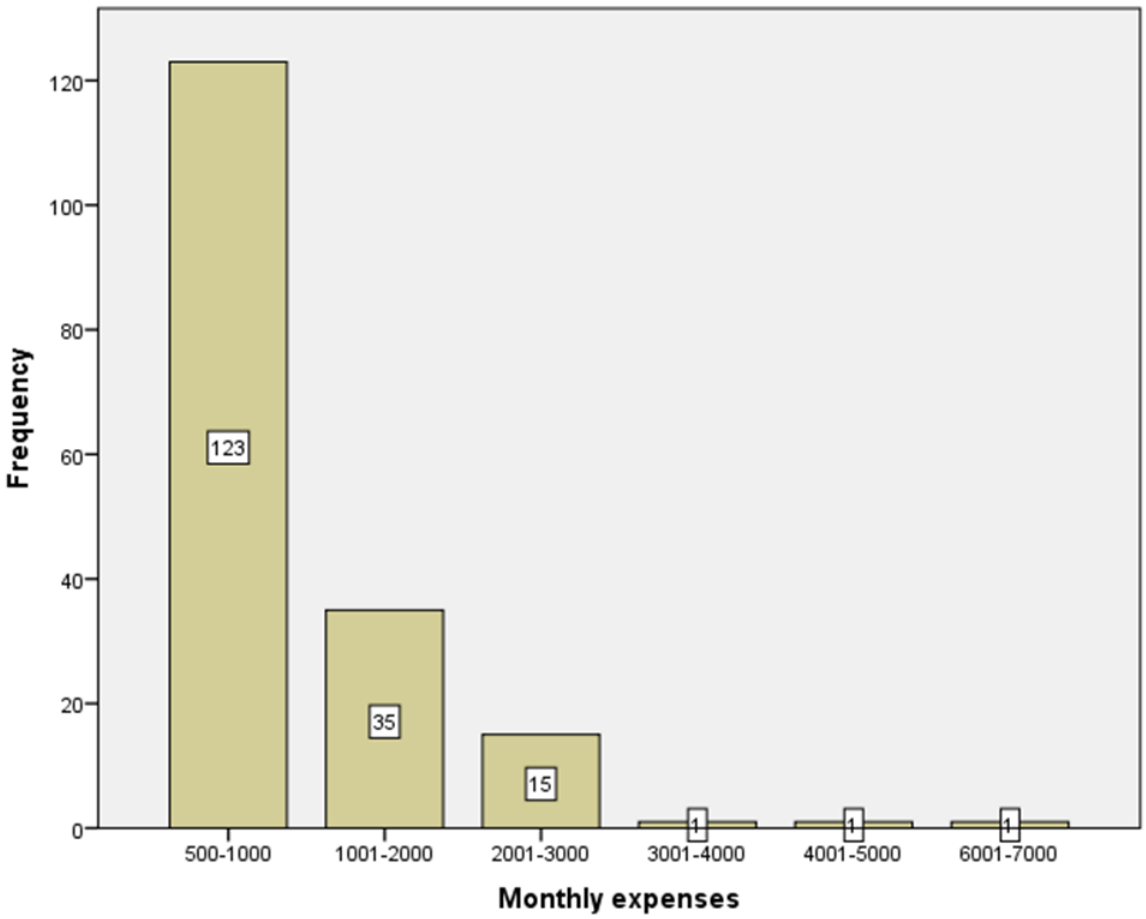


Figure 31. Monthly expenses of respondents

Next, the amount of money spent monthly on the expense options was asked in the questionnaire. The number of responses received in each monthly expense group is represented in the bar chart in Figure 31. As shown in the bar chart, 123 respondents have a monthly expense budget which ranges from 500 euros to 1,000 euros. There were only 35 respondents who have a monthly expense budget which ranges from 1,001 euros to 2,000 euros. The average amount of money used as a monthly budget for expenses is 1,115 euros.

Keywords Economy, Consumption, Spending, Saving

Correlations

		Age group	Monthly expenses
Age group	Pearson Correlation	1	,439**
	Sig. (2-tailed)		,000
	N	176	176
Monthly expenses	Pearson Correlation	,439**	1
	Sig. (2-tailed)	,000	
	N	176	176

**. Correlation is significant at the 0.01 level (2-tailed).

Table 1. Correlation between age group and monthly expenses

Next, an attempt was made to find any correlation between age group and the monthly expenses. The correlation of these two variables is presented in Table 1. Age group and monthly expenses, however, show no correlation since the correlation coefficient is 0.439 (which is quite close to 0.5). If there is any correlation, then the correlation coefficient will be more than 0.5.

The following 3 figures (Figure 32, Figure 33 and Figure 34) show the frequency of each expense category for each expense range. I have only provided bar charts for the three most frequently selected expense ranges. Evidently, groceries was the most common expense option to choose. In addition, accommodation and transportation was also chosen almost all the time. On the other hand, it can be observed from the graphs that the respondents who had a monthly budgets of 500 to 1000 euros and of 1001-2000 euros did not spend a considerable amount as the respondents whose monthly expense budget ranged from 2001 euros to 3000 euros.

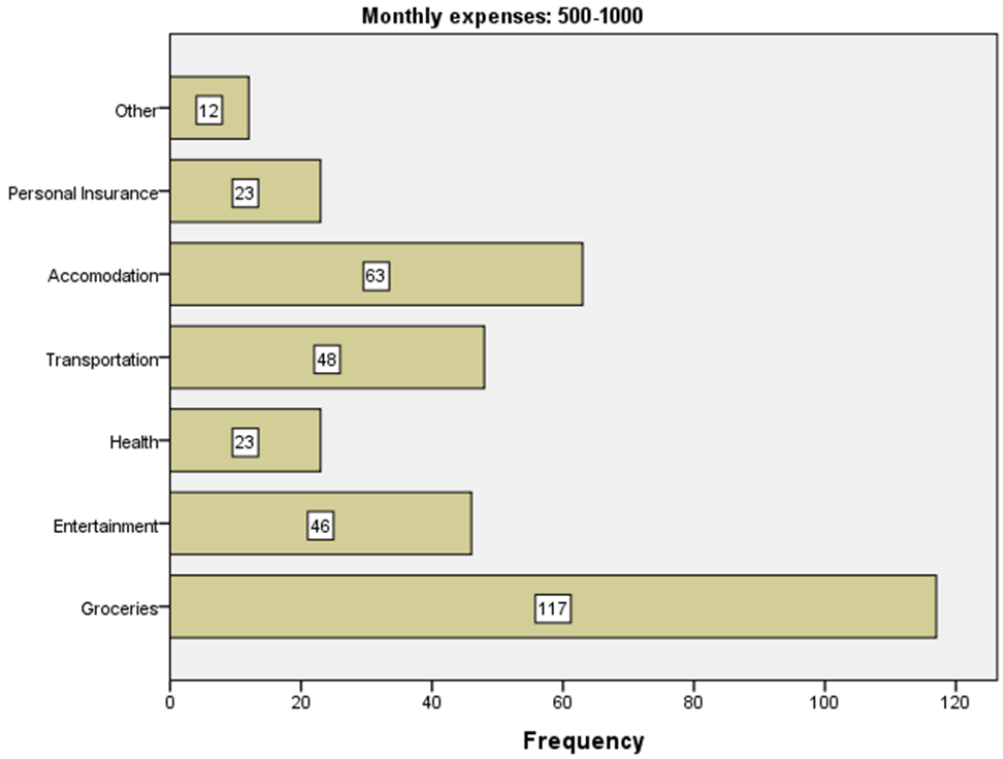


Figure 32. Bar chart showing expense categories for each expense range

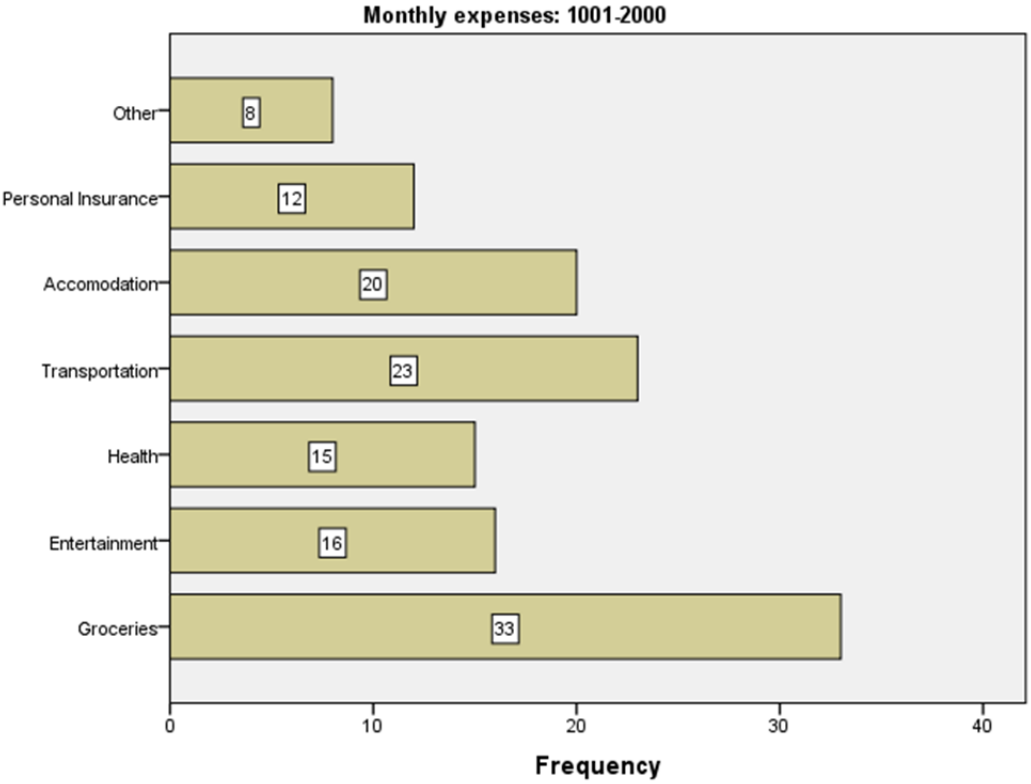


Figure 33. Bar chart showing expense categories for each expense range

Keywords Economy, Consumption, Spending, Saving

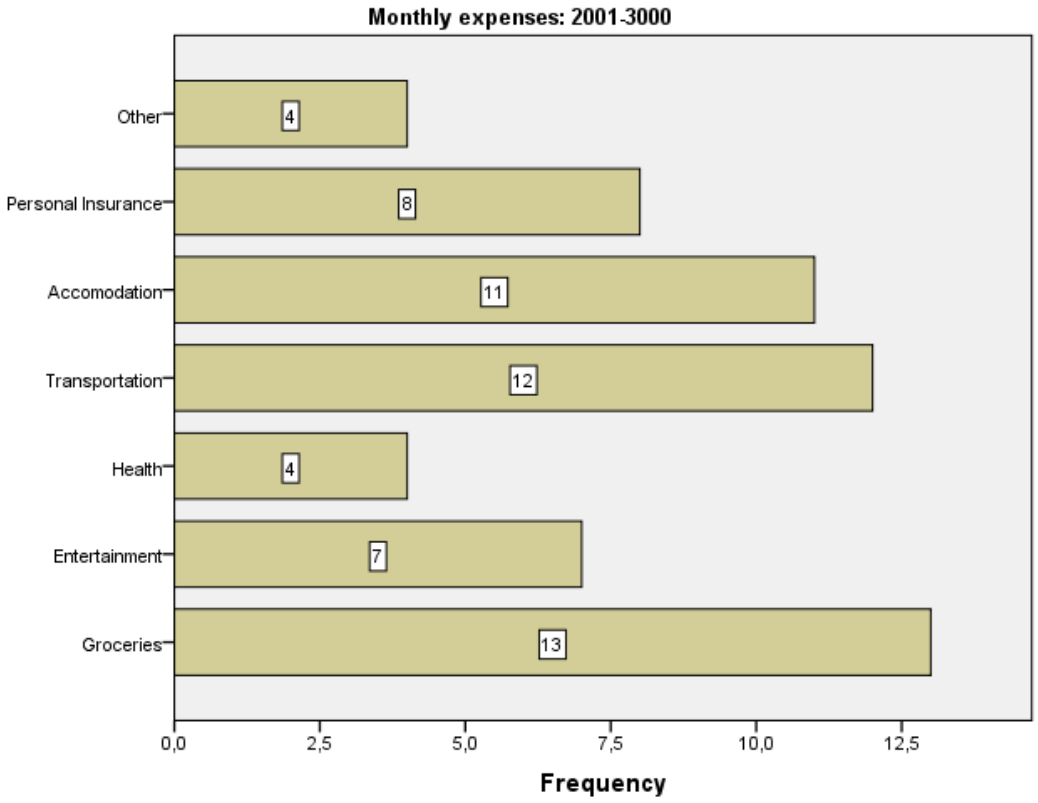


Figure 34. Bar chart showing expense categories for each expense range

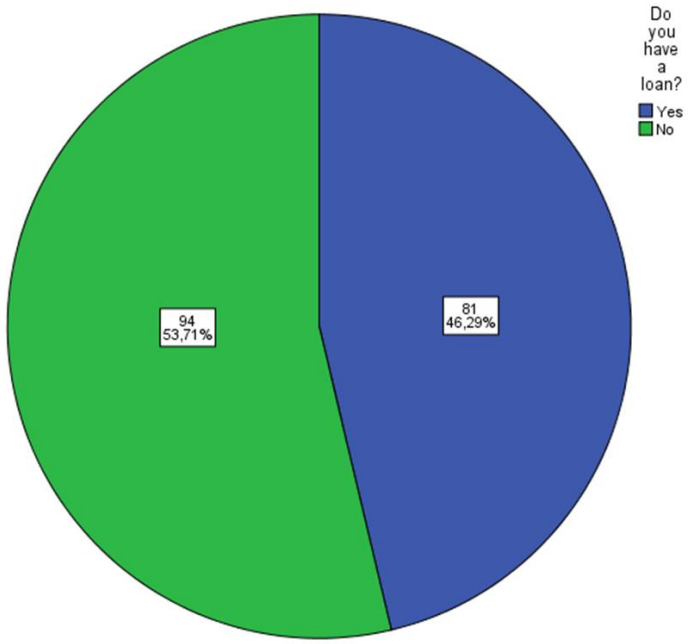


Figure 35. Pie chart representing debts of the respondents

The respondents were asked to answer if they had a loan to pay off at the moment. The results were then represented in the pie chart shown in Figure 35. There is not much difference in the answers since 46.29% of the respondents claimed that they had debts whereas, 53.71% of the respondents claimed that they did not have debts.

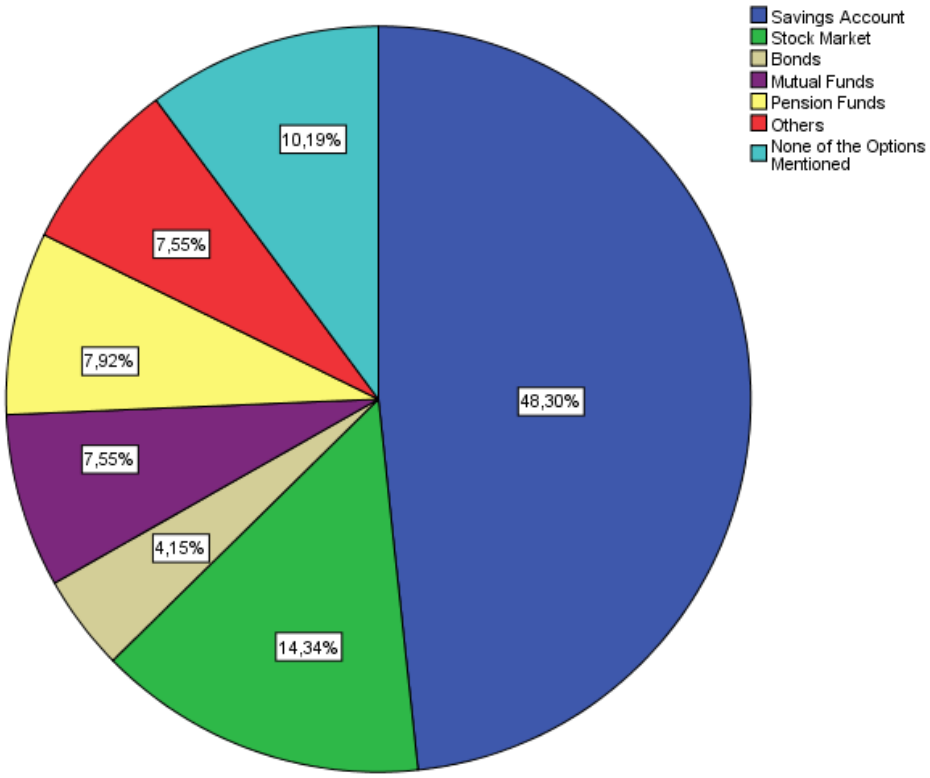


Figure 36. Pie chart for savings options

The pie chart in Figure 36 shows all the savings options that are presented in the questionnaire. The respondents were given the option to choose one or more categories. In this case, saving account was chosen 48.3% of the times and stock market was chosen 14.34% of the times. The other options were chosen in a fairly similar manner as they all were chosen from 7% to 8% of the times.

Monthly income slab

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	500-1000	106	60,2	60,2	60,2
	1001-3000	43	24,4	24,4	84,7
	3001-5000	22	12,5	12,5	97,2
	5001-7000	3	1,7	1,7	98,9
	7001 and above	2	1,1	1,1	100,0
	Total	176	100,0	100,0	

Table 2. Frequency of monthly income groups

Table 2 above shows how many times each income group was chosen. By looking at the table, it can be concluded that most of the respondents earn a monthly salary of a figure ranging in between 500 to 1000 euros since this is the mode. The average income, according to this survey, is 1542 euros.

The saving options are separately shown for each income group in Figures 37, 38 and 39. I have not included income groups beyond the 3001-5000 euros range since they are outliers and do not contribute to the trend. Therefore, it is difficult to analyze with those outliers. From the figures, it can be concluded that savings account is the most used saving option.

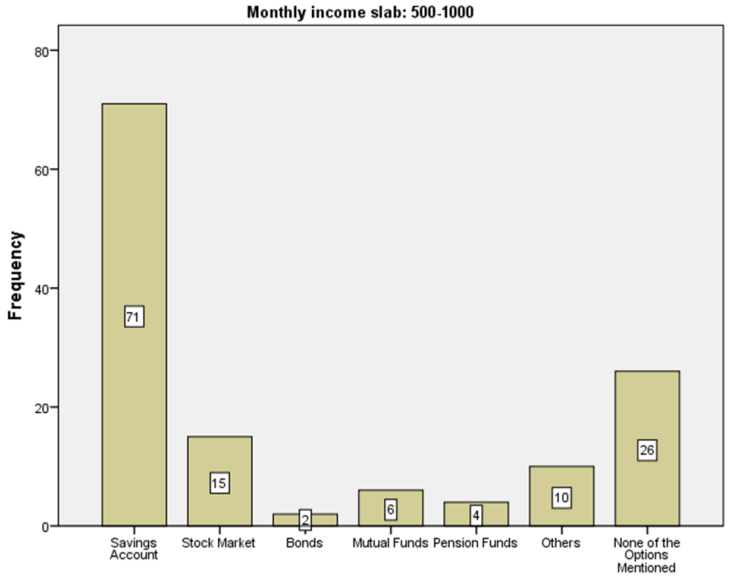


Figure 37. Bar chart showing saving categories for each income group

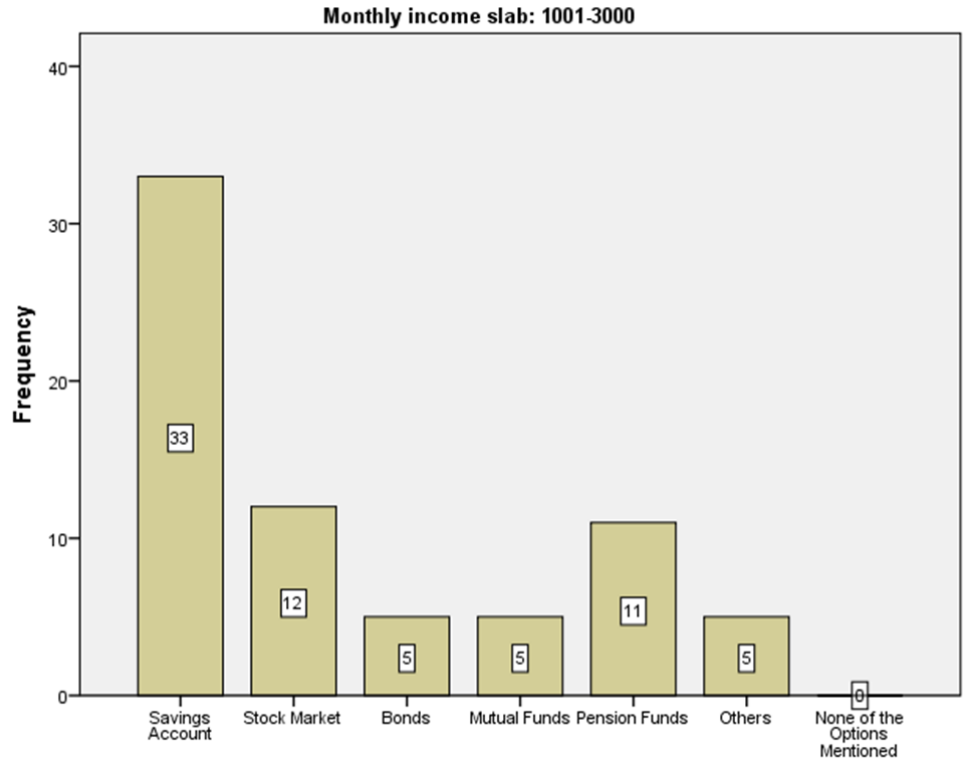


Figure 38. Bar chart showing saving categories for each income group

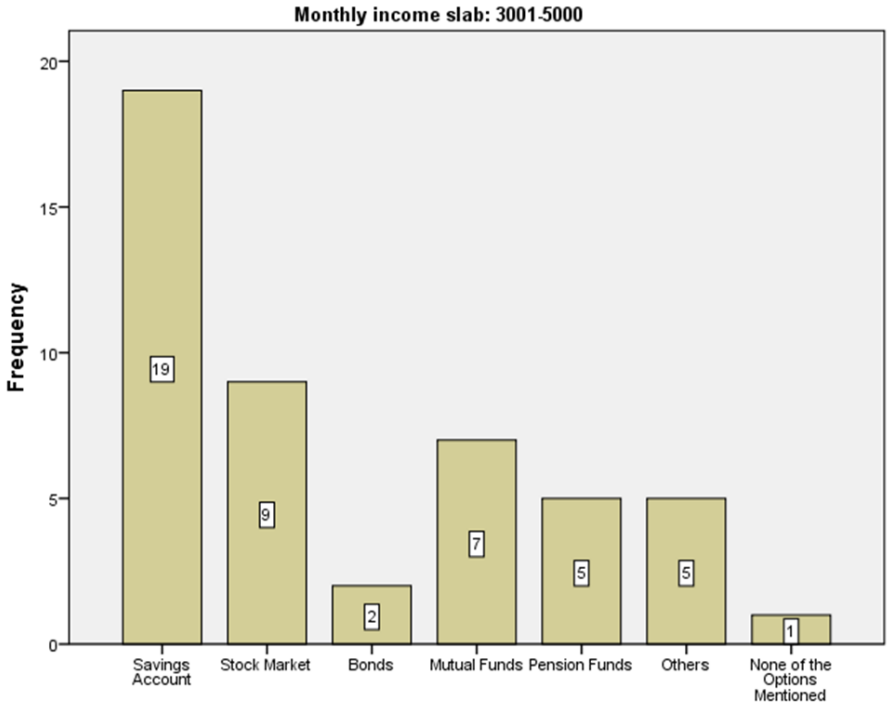


Figure 39. Bar chart showing saving categories for each income group

Keywords Economy, Consumption, Spending, Saving

6 CONCLUSION AND DISCUSSION

In this final chapter of the thesis, a summary of the thesis will be presented in the first section. Then the conclusions reached will be discussed and explained by giving clear reasons for the underlying conclusion presented. Thirdly, the reliability and validity will be stated for the thesis along with the limitations. Finally, topics for future research will be suggested.

6.1 Summary

The research for this thesis was conducted for the purpose of studying the spending and saving behavior of Finnish population. The research problem was to see whether there is any impact of the typical Finnish behavioral trend on the Finnish economy.

In order to understand what are the key factors that are used to study this specific behavior, the fundamental concepts were discussed thoroughly. First, the topic of GDP was explained extensively. Then, consumption was defined and the elements entailing under consumption was discussed. The same principle was followed for investment, inflation, unemployment and international trade.

All the factors required to understand the spending and saving behavior were then applied to Finland. This was the next section of the thesis. Each component was discussed by presenting graphs from authorized organizations. In some cases, comparisons of the components with those of the neighboring countries were made. The reason behind this was to see the position of Finland among other neighboring countries.

Finally, a questionnaire was constructed in order to retrieve primary data. The questionnaire entailed questions regarding employment status, expense categories to spend on, monthly expenditure budgets, debts, saving categories as options and monthly salaries as incomes. After receiving 176 responses from two specific organizations, results were analyzed. The statistics software called SPSS was used

to construct the bar and pie charts. The results were then explained to advocate the analysis and answer to the research problem.

6.2 Conclusion

The conclusion of the research is drawn from the current economic situation of Finland and the results from the questionnaire. An attempt was made to find a general trend for the attributes of the respondents. The general trends will be then analyzed with the current economic trends of the country since they are both integrated.

If we recall from the current economic trends, we will come to a conclusion that Finland as a country is not performing up to its full potential at the moment. This is presented in the graphs shown previously in the thesis. The GDP in 2014 was 272 billion USD, whereas the GDP had been much higher historically. The GDP growth rate in 2016 is 0.5%, however, the GDP per capita is 49 823 USD per year. However, the interest rates are now 0%, inflation rate is -0.1% and the rate of unemployment is 9.4%. When trading internationally, Finland has gradually deteriorated over time and in 2015 it had a negative net trade balance of 50 million EUR.

If we need to find a general trend from the results of the questionnaire, we have to find averages of the answers for each question type. According to the survey, the average age of the respondents was 26 years and the most common employment status was found to be students. The most frequently chosen expense group were groceries, accommodation and transportation, whereas, the average monthly expense budget was 1115 euros. The most frequently chosen savings options were savings account, stock market and no savings options used at all. Finally, the average income was calculated to be 1542 euros.

If the average monthly income of the sample is 1,542 euros and the average monthly expense budget is 1,115 euros, then the respondents must be saving 427 euros monthly. This is a nominal amount of saving done by the respondents. Secondly, it can be seen that most of the respondents are saving their 427 euros (ap-

proximately) monthly in their savings account. We know from the economic factors that the banks in Finland are offering 0% interest rate. This means that the respondents are not earning any interest on their savings. The next most common saving option was investing the savings in the stock market. This is a favorable option to choose as this means that investments are taking place in Finland. However, the percentage of the respondents who chose this option was quite low (14.3%). This, again, casts doubts on how much savings is invested in the stock market. The next most popular option chosen was the "none of the above" option. This means that 10.2% of the respondents do not keep their savings in some institution or invest somewhere. This might also mean that these particular respondents do not save at all.

It can be concluded that if the savings are kept in a savings account and earns 0% interest, then it is futile to keep it in the account and invest it elsewhere. However, this is not the trend, since respondents tend to keep their savings in the savings account. If this trend prevails in the entire country, then the savings will not be diverted to fund projects that would be undertaken in the country. If projects in the country cannot be funded then investment opportunities are lost and economic growth will be slow down even further.

In addition, the respondents have a monthly expenditure budget of 1,115 euros with expenses covering only the basic needs. The basic needs were found to be groceries, accommodation and transportation. This is the spending behavior of the sample. Therefore, the sample population pays for the basic needs with approximately 1,115 euros, which is 72.3% of the average monthly income. Although, the inflation rate is -0.1%, the costs in Finland are quite high since it covers 72.3% of an average citizen's monthly disposable income.

If the spending behavior of the Finnish citizens consists of mostly concentrating on covering the basic needs, then this means that citizens have very little disposable income to spend on luxury or durable goods. Producers of many such products will then start making losses since it will not be profitable any longer. This will have an adverse effect on the economy. Likewise, the situation with the saving

behavior of the citizens is generating the kind of trend for the Finnish economy. Savings are not being invested sufficiently into the economy to boost economic growth. Due to this, the Finnish economy might suffer in the future.

Unless the impact of the spending and saving components of the Finnish GDP has to be considerable, there needs to be a change in the attitudes of the Finnish citizens. At the moment, the attitudes are restrictive in terms of purchasing goods and services. One remedial action can be lowering of income tax rates by the government. By lowering the tax rate, citizens will have more disposable income for both saving and purchasing. The percentage of the basic expenses covering the income will be lower, which will eventually mean that citizens will have more disposable income at hand to purchase durable and/or luxury goods.

6.3 Research Reliability and Validity

The degree to which the techniques used for collecting data and doing analysis will give consisting results is defined as research reliability (Saunders et al. 2009, 156). This thesis is reliable in the year 2016 and it will be reliable in the short run. However, there is a high probability that the spending and saving behavior of the Finnish citizens will change in the future. Therefore, in order to maintain the reliability of the research, new surveys have to be conducted at regular intervals to find a better trend at the respective time in the future.

Validity of a research is defined as whether the findings are true representation of reality (Saunders et al. 2009, 157). The validity of this thesis is reasonable to a certain extent. The research was conducted in Vaasa, which is a city located in western Finland (in the Ostrobothnia region). Hence, the sample size of the population can be representing attributes typical to Vaasa. To improve the validity of the research, one can carry out similar research in other Finnish cities and then find trends and other generalizations of the citizens' behavior.

6.4 Limitations

There are a few limitations of this research which can be avoided if there was no lack of resources. Firstly, the resources used to build the theoretical framework

were not up-to-date but rather old. Latest books and articles were not found for the relevant information needed for this research.

Secondly, as mentioned in the previous section of research reliability and validity, the survey conducted was conducted in only one city. Therefore, the results can be biased towards Vaasa and not represent other Finnish cities. The reason behind this was due to lack of financial resources and time. If more time was available then an elaborate research could have been carried out which might have then represented the entire Finnish population.

Finally, the research was conducted in only two organizations in Vaasa. This means that the responses received might represent just two types of trends. In order to receive a better sample, the survey should have been conducted in various organizations. Nevertheless, the number of responses received from the questionnaire was satisfactory.

6.5 Future Research Suggestions

The suggestions for future research would include all the issues mentioned in the limitations to be avoided. For instance, the research can be conducted in different organizations and in other Finnish cities so that the sample population increases which will assist in getting a more accurate picture of the situation. Secondly, the research can be conducted at a later date in the future to monitor any new trends emerged from the political, technological, economic and social perspectives and then compare the research with this thesis. Finally, more time and resources can be invested to conduct a better research and to improve the research quality.

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7 LIST OF APPENDICES

APPENDIX 1. Spending and Saving Questionnaire

Spending and saving questionnaire

Hello! I am conducting a survey about the Spending and Saving behaviour in Finland. Please take a moment to answer my questionnaire.

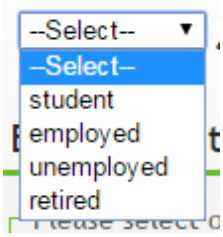
Please select the age group that you belong to:

Please select the age group that you belong to:

	18-20	21-30	31-40	41-50	51-60	61-70	71 and above
Age	○	○	○	○	○	○	○

Employment Status

Please select your employment status from the following drop-down menu:



Expense categories

Please select one or more expense category that you usually spend on:

- ☐ Groceries (food, clothes, personal care products, etc.)
- ☐ Entertainment (movies, concerts, theater, travel, etc.)
- ☐ Health
- ☐ Transportation (bus, petrol, etc.)
- ☐ Accomodation
- ☐ Personal insurance
- ☐ Other

Please select the total amount of your monthly expenses:

	500-1000	1001-2000	2001-3000	3001-4000	4001-5000	5001-6000	6001-7000	7000 and above
Monthly expenses	○	○	○	◉	○	○	○	○

Debts

Please select Yes or No for the following question:

	Yes	No
Do you have a loan?	○	○

Savings Options

What kind of savings options have you chosen?:

- ☐ Savings account
- ☐ Stock market
- ☐ Bonds
- ☐ Mutual funds
- ☐ Pension funds
- ☐ Others
- ☐ None of the above

Income

Please select your monthly income:

	500-1000	1001-3000	3001-5000	5001-7000	7001 and above
Income	○	○	○	○	○

Keywords Economy, Consumption, Spending, Saving

Proceed

Save

Keywords Economy, Consumption, Spending, Saving