

DISCUSSION QUESTION

Name:

Instructor:

Course:

What is the Paradox of Thrift? How does this affect a recession? What is an argument against the Paradox of Thrift?

PEER GROUP PROBLEM SOLVING

Name:

Instructor:

Course:

In economics, there is a difference between the terms “saving” and “savings”. What is the difference between the two terms? Give an example.

IN-CLASS EXPERIMENT / ACTIVE EXERCISE

Go to the Organization for Economic Co-Operation and Development's website. Using the most current year available, look up Household Saving Rates by country. Which country has the highest net saving rate? Which has the lowest? Where does the U.S. rank?

Hint: http://www.oecd-ilibrary.org/economics/household-saving-rates-forecasts_2074384x-table7

SOLUTIONS AND INSTRUCTOR NOTES

Discussion Question

What is the Paradox of Thrift? How does this affect a recession? What is an argument against the Paradox of Thrift?

Paradox of Thrift: The more people save, the less they stimulate the economy. In a recession, if people save rather than spend, the demand for a firm's goods and services fall which may result in the firm having to lay-off people thus raising unemployment. Unemployed people have less income, so now they are spending even less and the recession worsens.

An argument in opposition is that when people save, savings are increased and financial institutions now have more funds to lend which should bring down interest rates and increase borrowing, thus increasing demand.

Peer Group Problem Solving

In economics, there is a difference between the terms "saving" and "savings". What is the difference between the two terms? Give an example.

Saving (no "s"), is a flow. Saving is a flow as Disposable Income is either spent or saved. (Saving + Consumption = Disposable Income). Money that is not consumed can be saved and/or invested. It can be put in a financial institution, such as a bank, or invested in stocks and bonds and accumulated. This is savings as a stock rather than a flow.

In-Class Experiment / Active Exercise

Go to the Organization for Economic Co-Operation and Development's website. Using the most current year available, look up Household Saving Rates by country. Which country has the highest net saving rate? Which has the lowest? Where does the U.S. rank?

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If the link does not work, go to [OECD-ilibrary.org](http://www.oecd-ilibrary.org). Then look for Statistics/Economics: Key tables for OECD: Table 7. Results will vary but generally Switzerland and Sweden are near the top. Japan and New Zealand are usually at the bottom. The United States is usually in the bottom third.

For more in-class experiment and active learning ideas, visit www.econedactive.com