

## MACROECONOMICS AT WORK EXERCISE

### CONSUMPTION AS AN ELEMENT OF AGGREGATE DEMAND

**REFERENCE:** ‘Consumers hot to trot – despite cooling economy’, (by Rhys Haynes), *The Courier-Mail*, 7 January 7, 2005, p. 35.

### CHAPTERS RELEVANT TO THIS EXERCISE: 6, 11

#### CONTEXT

Consumption expenditure (consumer demand) is a major element in *aggregate* demand and thus in the aggregate level of output (GDP) and income (Y) in an economy (production and income being conceptually equal) – see p.125 ff. The level of consumer demand will be influenced primarily by the *income* that accrues to consumers (note the element of interdependence here: C is major influence on Y, and Y [in the previous period] is also one of the determinants of C). But consumer demand is also influenced by a range of *other* economic variables which influence consumers’ decisions to spend. These decisions reflect what is commonly referred to as *consumer confidence*. An indication of likely consumer demand in the Australian economy is given by a survey of consumer attitudes undertaken bi-annually which comes up with an overall measure of consumer confidence expressed in a *MasterIndex*. This article refers to the results of the latest MasterIndex survey and discusses them in the context of aspects of the economy that influence consumer confidence.

#### QUESTIONS

1. What does ‘consumer confidence’ measure, and what are the major determinants of consumer confidence?
2. What is the broad conclusion of the latest MasterIndex survey of consumer confidence?
3. Discuss the link between the state of the ‘housing market’ and consumer confidence.

4. Are the results of the survey of consumer confidence in any way surprising?
5. Why might the economic adviser to MasterCard Asia/Pacific be considered a person knowledgeable about the Index and be quoted in the article?