

Unit 9

Saving

Introduction

In Unit 7, you learnt how to organize your time into working and leisure. In this unit, you will discuss how to organize your resources, particularly money. You will explore how the economy works and how important it is to utilize resources efficiently. You have seen in Unit 7, how globalization could have a negative impact by harming domestic industries. You will see how important it is to use domestic resources, including locally produced goods and services. Finally, you will look at how the economy works.

Lessons

1. Methods of Saving
2. Regulating the National Economy on Realistic International Principles
3. Types of Economy
4. Money and Capital

- recognize the difference between the micro and macro economy.
- appreciate the role of national and international monetary organizations in national development.

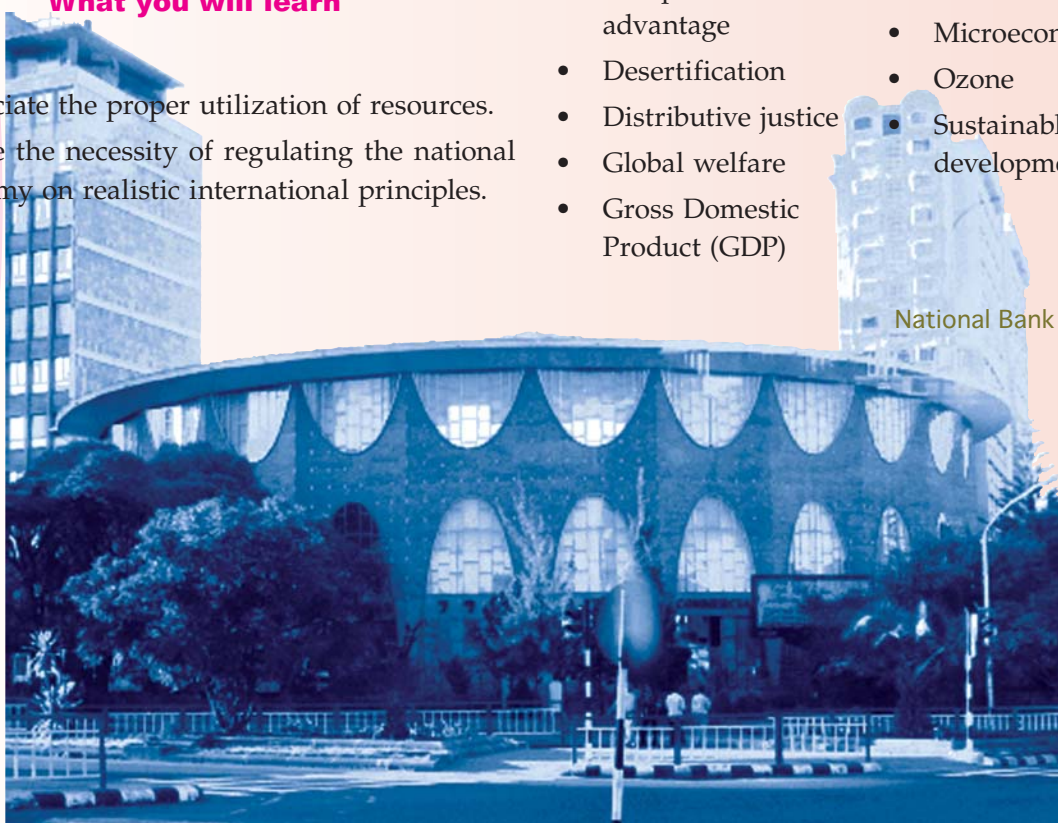
What you will learn

You will:

- appreciate the proper utilization of resources.
- realize the necessity of regulating the national economy on realistic international principles.

Key words and concepts

- Comparative advantage
- Desertification
- Distributive justice
- Global welfare
- Gross Domestic Product (GDP)
- Macroeconomics
- Microeconomics
- Ozone
- Sustainable development



National Bank of Ethiopia

L E S S O N

1

Methods of Saving

By the end of this lesson, you should be able to:

- explain the necessity of planning production and consumption.
- describe the importance of relying on one's own national product.

If you want to regularly save, how would you start? Discuss in the class.

You have learnt how proper utilization of resources is important. This importance generally arises from the fact that the resources we use to satisfy our needs and wants are scarce. They cannot satisfy the unlimited needs and wants of humans. This calls for the proper utilization of resources in order to make the best use of them. If we utilize our resources properly we can use them for a longer period and for more people. Some of our resources are very scarce and are in danger of being totally exhausted.

A good example is the environment. Studies show that, if we do not take very serious measures to protect our environment, we will totally lose our environmental resources. These measures include protection of the water and air resources. Factories emit unhealthy gases that harm the air and deplete the ozone layer. This results in global warming and makes the world a difficult place to live in.

Other environmental resources include natural forests. Mankind has destroyed a substantial portion

of the natural forests in the world. The depletion of forests results in the desertification of places. Desertification, in turn, reduces the availability of land that can be used to produce food. Consequently we are losing our resources because of lack of proper utilization.

Besides saving our natural resources, we have to know how we should use other resources properly. In order to utilize resources, we need to plan. Planning requires an understanding of what we want or need and what resources we have. For example, to have a big house and cars you need to save a considerable amount. If you want to build a business of your own you should plan accordingly so that you can save enough to have the sum of money you need.

There are number of things that are important to consider before planning your consumption and saving. First and foremost is your level of income. When you start work in the future you should estimate how much income you will have. This is the most important component of your planning since this amount decides how much you can actually save or consume.

The next important thing to consider before planning saving is that consumption has to be made on the basis of need. It is important to change our attitude towards consumption. We shouldn't consume just because we have the money or spend

Methods of Saving

CASE STUDY

Global Warming

One of the major issues threatening our environment is global warming which is a phenomenon that occurs because of the depletion of the ozone layer. The ozone layer is very important for life because it absorbs ultra-violet rays and prevents them from reaching the ground. Certain industrial compounds erode the ozone layer and expose life to dangerous ultra-violet radiation. Because of this the earth's temperature increases and this is called global warming. Most of these industrial emissions that erode ozone are produced by the developed countries. There is a lot of debate to urge the developed countries to use resources responsibly so that humanity can live a valuable and prolonged life on earth.

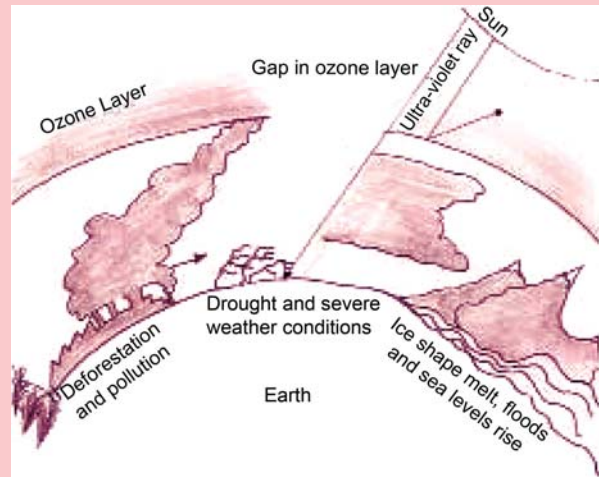


Diagram showing the effects of global warming

? Can you imagine what will happen if we continue to erode the ozone layer?
Discuss in the class.

impulsively as we need to identify those things that are necessities. Having properly identified those necessities, it will be easier to estimate how much money is required to fulfill those needs after which the rest of the money can be saved.

? Explore the cost of renting or purchasing property and other large commodities you may want. Then look at the salaries paid to professional people. What can you expect to earn after your studies and how much would you need to save to purchase what you want?

For countries, saving is determined by their Gross Domestic Product (GDP). This measure of income is very important for a country. Countries with a greater GDP can consume and save more

since GDP represents the total value of production of goods and services. This means, the more goods and services we produce, the more we are likely to consume and save. Therefore, as far as saving is concerned, the most important thing for a country to consider is its national income.



You may want to lease a new apartment in a city

Methods of Saving

One of the ways that a country can properly utilize resources is through using those that are locally available. All countries produce different goods and services. When people use locally produced goods and services they will save resources such as transport costs. By doing that we are helping the domestic economy to flourish.

In most developing countries people use imported goods more than they use their own products. But when the goods are imported, the price is likely to be higher since it costs more to transport the goods from another country. Also, domestic industries go out of business because very few people buy their products. This attitude has to be changed in order to properly utilize our resources.

List those items that are produced in your locality. Try to assess their prices and their quality with respect to similar products that are imported from abroad.



Choose 5 items that are produced in this country. Explore the prices and the quality of those items and try to compare them with similar items that are imported.



Banks are modern institutions of saving

REMEMBER

- It is important to develop the habit of saving part of your income as well as natural resources.
- GDP represents the total value of production of goods and services.
- When people use the goods and services produced in their locality they will save resources.

L E S S O N

2

Regulating the National Economy on Realistic International Principles

By the end of this lesson, you should be able to:

- describe the international economic principles.
- describe the situation of the Ethiopian economy.

Why is it important to regulate the national economy on the basis of international principles? Discuss as a class.

You have seen in Unit 7, how globalization is a phenomenon that no country can escape from. It therefore requires an understanding of global economic principles and trends in order to align oneself in a beneficial way. In the international economic order over the past two decades there have been dominating principles that govern the economy. Before that there were opposite principles that were supported by two blocs: the capitalist west and the socialist east. These blocs had different ideologies as to how the economy should be managed. The socialists believed that the command economic structure was appropriate while the capitalists believed the market economic structure was better. Over the past two decades however, the capitalist free market structure has prevailed and most countries have pursued that direction for their economy.

The economic principles of the free market

economy are:

- freedom of decision to economic agents like producers and consumers;
- lower government involvement in the market; and
- letting market forces determine the extent of transactions and prices.

Supporting these basic concepts of a market economy, there are other international principles. These include:

- global welfare;
- distributive justice;
- comparative advantage; and
- sustainable development.

Global welfare is a broad concept that considers the well-being of individuals all over the world. Eliminating hunger and disease and increasing literacy rates are among the global goals to increase welfare and enhance the quality of life of people around the world. This has been a great challenge for mankind. A large portion of the world's population lives in poverty and does not have access to even the basic needs. We have not managed to overcome this challenge so far.

You have discussed distributive justice previously and you have seen that it deals with fairness in the

Regulating the National Economy on Realistic International Principles

distribution of socio-economic benefits. It means maintaining equality in the economic status of the people.

The other important principle is comparative advantage. This principle is taken from the market economy principle that countries should produce those products which bear a minimum cost and should not produce those products that cost more. Instead they should import those products from other countries. This means that those countries that produce agricultural products at less cost should continue to produce mainly agricultural products and use profits from exports to import industrial products.

Finally, the most important principle is sustainable development. This is very much related to global welfare. In order to ensure the well-being of individuals, it is important for them to develop both economically and socially. This includes increasing people's income through production and developing other socio-economic factors like education, health,

governance, institutions etc which ensure sustainable development.

All these principles are supported by the international multilateral organizations like International Monetary Fund, World Bank and World Trade Organization.

Knowing the dominating global economic principles is important for any country to make its own economic decisions. As no economy exists in isolation, it has to align its economic decisions to fit in with the global economic order and principles. Ethiopia has to do the same. The country is integrated in the world economy and, if it wants to continue its economic relations with other countries, it has to devise its economic policies in line with them.

Ethiopia is one of the poorest countries in the world with close to 85 percent of the population working in agriculture in the rural areas. The methods of production are weak and dependent on

CASE STUDY

World Trade Organization (WTO)

One of the biggest international organizations established with the agreement of many countries is the World Trade Organization. It was established in 1994 by 128 member countries to administer trade agreements between countries. It has the general principles of promoting free trade between countries. It encourages the removal of all kinds of trade barriers. Countries impose trade barriers because they want to protect their industries from competition from outside. When countries remove trade barriers many products come in and compete with domestic industries which

causes the profits to decline. Therefore, in order to protect their industries from this, countries impose trade barriers. WTO opposes this kind of protection. It promotes the freeing of markets and countries producing according to their comparative advantage.

What value does the WTO bring to developing countries. How do you think it affects Ethiopia's trade?

Can Ethiopia's trade benefit from the principle of comparative advantage?

Discuss as a class.

Regulating the National Economy on Realistic International Principles

nature. The country is frequently hit by recurrent droughts and is desperately in need of food self-sufficiency. The country also depends on foreign aid, both in times of drought, and for her development needs. In addition to this, the country is not able to produce all the necessary goods and services domestically; therefore, essential goods have to be imported from other countries.

Some of our essential imports include fuel, medicines and fertilizer. We export our agricultural products to the other countries and use the earnings to import our essential imports. Apart from these immediate needs, we also need to import machinery and transport equipment necessary for our growth and development.

In order to import the technology required to transform the economy to a fast growing one, we need close ties with the rest of the world. Ethiopia's economic strategy at present is aligned to the free market principles. Gradually, the country has transformed from a command economy to a market

based economy. Although there is a long way to go, there have been measures taken to liberalize the economy. In addition, the country has chosen export-led growth in which exports are encouraged with earnings used to import essential commodities.

Debate

Divide yourselves into two groups and organize a debate with each side taking one of the issues. Corroborate and substantiate your ideas with evidence.

- Ethiopia should promote only free trade and shouldn't protect its industry from competition from other countries. Competition is good for growth and it should be promoted.
- Ethiopia is a poor country and should protect its industries from the outside world. The country is not in a position to open its market and it would harm the country's growth if it does not protect its industries.

REMEMBER

- ❑ We should buy more locally produced products to strengthen our economy.
- ❑ Ethiopia should follow international principles of comparative advantage, global welfare, distributive justice and sustainable development.

LESSON 3

Types of Economy

By the end of this lesson, you should be able to:

- explain the difference between micro and macro economy.

As a class, brainstorm the terms macro and micro.

An economy is studied from different perspectives which help to analyze the different faces of the economy and the different agents in the economy. The two major perspectives through which we study the economy are the micro and macro economy. As you may already know micro means small and macro means large and inclusive.

You know that an economy is made up of a lot of economic agents. These agents are either involved in production or consumption of goods and services. They have their own motives that, when seen collectively, affect the whole economy. Therefore, it is important to understand the individual behaviours of economic agents, the study of which is known as microeconomics.

Microeconomics studies the behaviour of consumers and producers. It deals with the determination of prices and summarizes the interrelationship between these economic agents. Consumers make their purchasing decisions, taking into consideration their utility and their purchasing capacity. Producers, on the other hand,

want to maximize their profits and choose a level of production that achieves this outcome.

Microeconomics also includes the analysis of the welfare of a particular group of people. Whenever the analysis comes down to individual agents or groups, then it is the concern of microeconomic research. If, for example, we want research whether a group of people are benefiting from a certain government decision, we conduct a microeconomic research. Microeconomic research is, therefore, a very important part of the study of economics. Without knowing how individual agents make their decisions, it would be impossible to devise policies that would affect the entire population or country.

The study of the behaviour of individual agents is not enough. We need a comprehensive and cumulative picture of what goes on in the economy. This is because, without this comprehensive picture, it is impossible to come up with the policies that stimulate the economy. Studying the overall economy is the concern of macroeconomics. Macroeconomics is said to be a bird's eye view of the economy. It is the analysis of the national economy looking at the overall prices, growth, production and consumption, saving and investment, unemployment, exports and imports and the like.

The growth performance of a country is analyzed through macroeconomic studies. This is because growth could only be analyzed through the summary of the total domestic production

Types of Economy

measured by the Gross Domestic Product (GDP). The percentage increase of the gross domestic product is what is called growth. The other very important issue in economics is the study of prices. The most common measurement of the price level is the Consumer Price Index (CPI). The consumer price index is the weighted index of prices of goods and services consumed in the economy. The percentage increase of this index is what is known

as inflation. The analysis of inflation determines what kind of policy will be needed to stabilize it. The other important issue is the level of saving and investment in the economy. As you know, it is only when there is enough saving that there can be investment which helps to create jobs and increase production. The analysis of investment is also done through macroeconomics, as is the study of imports and exports.

CASE STUDY

Assessing the Needs of a Rural Household

In a poor country like Ethiopia, where the majority of the population live in the rural areas, it is important to assess the economic and social needs of a rural household. In assessing the needs of a rural household, a review of the consumption and production levels of the household is very important. In looking at this it is possible to see what the household consumes. It is also possible to see whether the consumption is adequate or not. Reviewing what the household

produces and what income it earns is the other side of the needs assessment. All this is done through the microeconomic analysis. You can understand that the assessment of the needs of a rural household is very important. It shows the level of poverty a country is in.



Discuss as a class how and why the assessment of the needs of a rural household is important for policy making.



A rural Ethiopian household

Types of Economy

CASE STUDY

Inflation

From 2004/05 Ethiopia has been experiencing a sharp rise in prices of goods and services. Some macroeconomists say that the cause of this inflation is what is happening in the agricultural sector. Others are saying that it is caused by what is going on in international markets. Still others are blaming the inefficiency of the domestic market. The debate has continued. Some institutions and individuals have tried to conduct studies on the causes of inflation. In order to conduct such a study it is important to know what goes on in international markets and domestic

markets. This is the concern of macroeconomics. Macroeconomists analyze the movement of prices in the country and advise the government on the possible measures that could be taken to address the issue.

- ?**
- Has inflation been a concern to you or your family? Ask your parents about the level of prices.
 - What are the implications of inflation on a family and on a nation? Discuss.

REMEMBER

- ❑ Microeconomics study the individual agents in the economy, like the household and producers.
- ❑ Macroeconomics look at the economy as whole and study issues like, growth, inflation, unemployment and trade.



A modern urban Ethiopian household

LESSON

4

Money and Capital

By the end of this lesson, you should be able to:

- describe the role that local, national and international monetary organizations play in development.
- explain the relationship between money, capital and world politics.

What role can international monetary organizations play in Ethiopia's development?

Discuss this issue in the class.

In Grade 11, you discussed the importance of banks in development since they make available funds for investment. Investment in turn is a way of increasing production and employment. When production and employment increase, development comes. Here you will discuss more about this issue in an international perspective.

Increasing the sources of funding is an important goal in the development efforts of different countries. It is with this understanding that local, national and international organizations are expected to play significant roles in providing funds. Local, national and international monetary organizations have different roles to play in the development efforts. Local monetary organizations, such as credit unions, are primarily concerned with the mobilization of capital in the local area and cater to the needs of the local communities and business. They give out loans

to local consumers and businesses and are usually opened for profit.

National monetary institutions are larger and give a much bigger financial service by providing substantial amounts of loans to the public. These affect the economy significantly and impact on the direction of development. These institutions include the national bank, the commercial bank and other private banks which guide the supply of money depending on the growth and production demands of the economy. Local and national monetary organizations work mainly in response to what happens in the economy while at the same time trying to stimulate the economy to produce more.

International monetary organizations are a little bit different from the local and national monetary organizations because of their policies in providing funding. International monetary organizations devise their policies based on the shared principles of member countries. The policies are dominated by the beliefs of some rich countries who are the major financiers of these institutions.

The two major international monetary institutions are International Monetary Fund (IMF) and the World Bank. Both these institutions were established by the rich countries in an effort to help developing countries. But these institutions have policies devised by the developed countries with the understanding that they only give the loans and grants when the developing countries satisfy some of the conditions specified in the policies. Some

Money and Capital

of these policies include more liberalization of the economy and privatizing state enterprises.

Therefore, local, national and international monetary organizations are instrumental in financing the development efforts of a country. Also, they play a significant role in allocating the available funds to the most productive ventures so that the money can be put to proper use. These organizations have to conduct research to identify the sectors that require funding.

The other issue to look at is the level of involvement of international monetary organizations in world politics. As already stated, the policies and procedures through which international monetary institutions work are dominated by the funding members or countries. These are usually the developed countries. These countries have their national political objectives and would like to use their economic power in the international monetary institutions to influence other countries.

Normally economic leadership is very much related to political and cultural leadership. A good example of this is the United States of America. The US has been a global economic leader for quite some time and it has managed to politically and culturally influence other countries. The political influence extends to all corners of the world, swaying the political ideology and decision-making of many countries. The US used her political influence to promote her own economic benefit. The US has managed to encourage many countries to open their economies for US products.

In addition, it has managed to attract a large labour force from all over the world. Many people from different parts of the world have migrated to the US and work to benefit the US economy. With respect to culture, the US media largely dominates the media in most parts of the world. This has played a great role in attracting people to the US.

CASE STUDY

The policies of the International Monetary Fund

The International Monetary Fund (IMF) is an international multilateral organization established after the Second World War. At its establishment its purpose was to help in the reconstruction of war struck Europe. Eventually, however, it expanded its activities to a number of other responsibilities. It aims to:

- promote international monetary cooperation;
- promote exchange rate stability;
- facilitate balanced growth of international trade;
- help members when they face balance of payments difficulties;

- assist in poverty reduction.

As can be seen from these aims, the IMF upholds the international principles which promotes the freeing of markets and the reduction of government involvement. Representatives of the IMF come to Ethiopia yearly for consultation with the government on the state of the economy. They advise the government on the important measures to take.

? How can organizations like IMF help Ethiopia conform to international principles? Discuss the benefits and disadvantages of such consultations.

Money and Capital

All these reinforcing influences are indicative of the economic and political power of the richer countries over the developing world. Under such circumstances these rich countries sway the

political ideology and thinking of the people in other countries. This is reflected in the policies of international monetary organizations which urge the developing countries to follow these policies.

REMEMBER

- ❑ Local national and international monetary organizations are instrumental in providing funds for development activities.
- ❑ Through international monetary organizations, the rich countries sway the ideologies and decisions of the developing world.

UNIT SUMMARY

In this unit, you discussed about how to properly use resources in the economy without wastage. You explored the different international economic principles that a country has to follow like free market economy, global welfare, distributive justice, comparative advantage and sustainable development. You also saw the different perspectives of studying the economy. Finally, you saw the importance of money and capital and how local, national and international monetary organizations provide the funds for development activities; and how monetary institutions, dominated by richer countries, influence the policies and decisions made by developing countries.

GLOSSARY

Comparative advantage:	A concept related to countries producing and trading in commodities conducive to their national conditions.
Desertification:	The transformation of a land into a desert because of climatic change.
Distributive justice:	A branch of justice that deals with fairness in the distribution of resources.
Global welfare:	The state of the quality of people’s lives across the world.
Gross Domestic Product (GDP):	The total value of goods and services produced in a country during a period.
Macroeconomics:	A branch of economics that deals with the workings of the overall economy.
Microeconomics:	The branch of economics that studies the behaviour of individual economic agents in an economy.
Ozone:	The gas layer that protects earth from ultra-violet radiation.

UNIT REVIEW EXERCISES

Do these review exercises in your exercise book.

Part I – Multiple choice

- Which of the following is not an international economic principle?
 - sustainable development
 - comparative advantage
 - protecting local industries
 - (a) and (b)
 - all
- Which of the following is not the concern of macroeconomics?
 - growth
 - unemployment
 - individual producers
 - all

3. What is the importance of consuming local products?
 - (a) promoting local industries
 - (b) promoting saving
 - (c) promoting growth and development
 - (d) all
4. Which one is true about the responsibility of local monetary organizations?
 - (a) they mobilize funds locally and work for the needs of the local community
 - (b) they affect the economy more than any other types of monetary organization
 - (c) they cover all corners of the country

(d) all

Part II – Short answers

1. What is the difference between microeconomics and macroeconomics?
2. What is the relation between global warming and saving?
3. What is the role of local and national monetary organizations in the Ethiopian economy?
4. What are the merits and demerits of international monetary institutions in relation to a country?