

Assignment 1 – Saving and Interest rates (ECO1102)

Assignment:

From 1981 to 2005, Canada has experienced a sharp drop in private savings rates. On the second page of the assignment, Table 1 shows the time series of “Household saving rate” variable in Canada for this particular period.

Question: Many commentators, including high officials of the bank of Canada, have blamed the spending habits of the Canadian public for high interest rates. Are these commentators right?

Select the arguments that you find most relevant and work them out convincingly. Your argument should be understandable for persons with an academic thinking level, who are interested in macroeconomics but not necessarily familiar with the specifics of the “Supply and Demand of Loanable Funds” model.

Required readings:

- Mankiw, Kneebone and McKenzie, *Principles of Macroeconomics*, 6th Canadian Edition, Chapter 8;
- the lecture slides and class notes.

References:

- Use your own words.
- Do not forget to cite your sources! No need to include the reference to the book but refer to a page number if you paraphrase. If you use other readings they should be mentioned as reference. (Reference list is excluded from the two pages maximum).

Evaluation criteria (100% score if all criteria fulfilled):

- Maximum length: 2 page, Times New Roman (12pt), space 1.0, standard margins.
- Minimum length: one page.
- The text should be structured as an essay and use the terminology discussed in class.
- Mention your name and student ID on top of the assignment.
- Submit as Word attachment on the course website under “Assignments” before Tuesday 10 March, 10 pm (after that there is a 24 hour grace period on which you may rely AT YOUR OWN RISK). Submissions by e-mail (or Blackboard vista e-mail) will not be accepted under any circumstances.

Learning objectives:

- Understand how a supply-demand model works at macroeconomic level;
- Practice interpreting and explaining these models to others;
- More general: constructing an evidence-based argument.

Table 1

Year	Household saving rate (percent) in Canada
1981	16.2
1982	18.8
1983	15.2
1984	15.3
1985	14.6
1986	12.3
1987	10.8
1988	11.4
1989	12.0
1990	11.7
1991	11.8
1992	11.6
1993	11.2
1994	9.0
1995	8.2
1996	5.8
1997	3.3
1998	3.5
1999	3.2
2000	3.4
2001	3.5
2002	2.4
2003	1.8
2004	2.3
2005	1.5

Source: CANSIM, Statistics Canada