**Chapter: Financial Management: Factors affecting consumer spending, saving and wants.**

List of questions for Practice

**1. Why do we need to manage our finances? (3)**

We need to manage our finances prudently as we need to under our finances are limited and face the opportunity cost when we utilise them for our activities in life. Having known this, we can prioritize our financial resources properly for our spending, debt and other liabilities.

**2. what is the difference between a need and a want? (2)**

A need is what we have a to spend to ensure that we can survive like expenditure on food but a want is what we spend to attain satisfaction from the spending.

3. Assuming that you are going to study for a degree and you have given up the opportunity of work. What are the opportunity costs of your decision to pursue a degree?

The opportunity costs incurred can be seen from the loss of income from work and the level of benefits that one can attain from the use of the money for payment and fee and interest you can gain from the saving we put into our bank.

**4. Name the following priority for saving from least importance to most importance. (2)**

Health insurance, saving enough to get married, being debt-free, buy big-ticketing items.

**Answer**

**5.1 What is the difference between nominal income and real income? (2)**

**Answer:**

**5.2 Explain how the government in Singapore lower the real disposable income of the people?**

The real disposable income refers to income adjusted after the deduction of taxation and compulsory deduction like CPF contribution. When more taxes are imposed or the increase in CPF contribution, the real disposable income will reduce.

**5.3 A big country like China can generate more consumption to grow its wealth. What are the factors that will generate more consumption to have higher national income for the country if the Chinese government wishes to focus on consumption-driven growth? (8)**

**5.4 How will the rich and poor differ in the way they save and spend on luxury and necessities?**

The rich spend more on necessities as the value of food is higher while the poor spend lesser on the necessities ad the value of necessity spend by the poor is of lower value. However, the proportion of income they spent on necessities is lower than the poor as the rich’s income is high as compared to the poor.

The rich spend more the luxury as they have higher income and the proportion of income spend on luxury is higher. On the other hand, the poor spent lesser on luxury and the proportion of income spent on luxury is small.

Lastly, the amount of saving and proportion of income for saving is larger and more respectively than the poor.