University of Exeter coursework header sheet

BEEM115 Research Design and Dissertation (A, TERM2 2022/3)

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1090184

720066294

Coursework: Proposal
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Personal tutor: Miss Ipek Mumcu

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TITLE: The effect of interest rates on consumer spending behaviour.

Introduction: The relationship between interest rates and consumer spending behaviour has been the subject of much interest among economists, policymakers, and market participants. Consumer spending on goods and services is the biggest component of aggregate demand of a country. This is the data of UK of 2021.

AD = C+I+G+ (X-M)

In 2021:

C = £1376 billion

GDP = £2199 billion

Therefore, C = 62.6% of GDP

In 2020 – consumer spending fell by 10%

In 2021 – consumer spending rose by 6%

- The following are the Key factors which affects the consumer spending in a country.

1. Real disposable income
2. Household wealth including house prices.
3. Unemployment / job security
4. Interest rates
5. Availability of credit finance
6. Consumer confidence / animal spirits

The relationship between interest rates and consumer spending behaviour has been the subject of much interest among economists, policymakers, and market participants. Interest rates have a significant impact on consumer spending habits, with higher rates leading to decreased spending and lower rates leading to increased spending. However, the effects of interest rate changes on consumer spending can vary depending on various factors. These factors include:

1. Income levels: Consumers with higher incomes may be less sensitive to changes in interest rates since they are more likely to have savings or access to credit.

2. Consumer confidence: If consumers are optimistic about the economy and their financial prospects, they may be more willing to spend even if interest rates are high.

3. Type of spending: Consumers may be more likely to cut back on discretionary spending such as vacations or luxury items when interest rates are high, while essential spending on items such as food and housing may be less affected.

4. Type of loan: Different types of loans, such as fixed or variable rate mortgages, may respond differently to changes in interest rates, affecting consumers' borrowing and spending behaviour.

5. Economic conditions: Interest rates are often changed in response to broader economic conditions, such as inflation or unemployment. These factors may also influence consumer spending behaviour.

This dissertation aims to investigate the effect of interest rates on consumer spending behaviour, with a focus on the United Kingdom economy.

Literature Review: The literature review will provide a comprehensive overview of the existing research on the effect of interest rates on consumer spending behaviour. It will examine the different theoretical frameworks and empirical evidence that explain the relationship between interest rates and consumer spending. The review will consider the various factors that impact the relationship, including income levels, economic conditions, type of spending, consumer confidence and demographic characteristics.

Objectives: The main objective of this dissertation is to examine the impact of interest rates on consumer spending behaviour in the United Kingdom. Specifically, the research aims to:

1. Identify the relationship between interest rates and consumer spending behaviour in the short and long run.
2. Analyse the impact of changes in interest rates on different categories of consumer spending such as durable goods, non-durable goods, and services.
3. Evaluate the role of consumer confidence, income levels, and other macroeconomic factors in moderating the effect of interest rates on consumer spending behaviour.

Methodology: The research will be conducted in two phases. First phase will be the collection of data. To achieve the research objectives, this dissertation will use the combination of primary and secondary data collection methods. The primary data collection method will involve conducting a survey to analyse consumer spending behaviour patterns. The survey will be administered to a representative sample of the population to ensure the results are generalizable. The secondary data collection method will involve analysing the historical data on interest rates and consumer spending patterns. This data will be collected from various sources, including the Federal Reserve Economic Data (FRED) database, Bureau of Economic Analysis (BEA), and Bureau of Labour Statistics (BLS). This data will cover a period of 20 years from 2002 to 2022 and will include key macroeconomic indicators such as interest rates, consumer spending, income levels, and consumer confidence. In the second phase, a multiple regression analysis will be conducted to investigate the relationship between interest rates and consumer spending behaviour, while controlling for other macroeconomic factors.

Data Sources: The data sources for secondary data that will be used in this research are as follows:

1. Federal Reserve Economic Data (FRED) database: This database provides access to a wide range of economic data, including interest rates, consumer spending, and inflation.
2. Bureau of Economic Analysis (BEA): This agency provides data on national income and product accounts, including personal income and consumer spending.

3. Bureau of Labour Statistics (BLS): This agency provides data on employment, wages, and consumer price inflation.
4. Consumer Confidence Index (CCI): This index measures the level of confidence that consumers have in the economy, which can affect their spending behaviour.

The data collected from the survey and secondary sources will be analysed using descriptive and inferential statistics. The descriptive statistics will provide an overview of the data, while the inferential statistics will be used to test the hypotheses formulated in the study. Regression analysis will be used to determine the relationship between interest rates and consumer spending behaviour while controlling for other factors that can impact the relationship.

Expected Results: It is expected that the findings of this research will provide insights into the relationship between interest rates and consumer spending behaviour in the US. The results will help to shed light on how changes in interest rates affect different categories of consumer spending and how other macroeconomic factors moderate this relationship. The research will also provide implications for policymakers and market participants who are interested in understanding the impact of interest rates on the economy.

Conclusion: In conclusion, this dissertation aims to investigate the effect of interest rates on consumer spending behaviour in the United kingdom. By using a quantitative approach and analysing data from multiple sources, this research will provide a comprehensive understanding of the relationship between interest rates and consumer spending behaviour. The findings of this research will be useful for policymakers and market participants who are interested in understanding the impact of interest rates on the economy.