Unit Nine
Saving

9.1 The Need for New Thinking in Saving

In Ethiopia there is a common thinking that is bad for saving. Many people avoid locally produced items. Because of this they spend a lot of money on expensive imported products. It is important to change this type of mentality. There is a need for a new way of thinking that favors locally produced goods. Like people in other countries, who are very proud of their own products, we have to learn to live on our resources and appreciate our produce.

Buying more locally produced goods is more profitable for local industry and therefore good for development. If we do not support our manufacturers it may lead to local industries going out of business. At present, many foreign companies are profiting because we do not buy the goods made in our own country. The locally produced items are often cheaper and of just as good quality. We all need to appreciate locally produced goods, buy and use them regularly.

Another challenge is how to avoid wastage during production. To produce goods and services, we use many inputs, which are those items required for their production. We have to use these inputs properly in order to reduce our costs. For example, in the production of shoes we use leather as an input. We should be careful when using leather so as not to waste it. Wastage of inputs is a major cause of increased cost of production. If there is a lot of wastage of inputs, the cost of producing one item becomes high. If the cost rises, then the selling price of that product has to increase. This makes the products more expensive and less desirable. It also harms the development of

the country. Therefore, it is important to be conscious while using production inputs and use them carefully so as to avoid waste.

9.2 Methods of Saving

Proper utilization of resources is important because 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.

For example the environments 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.

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.
- 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.

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. 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***. 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.

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. Therefore, as far as saving is concerned, the most important thing for a country to consider is its ***national income***.

the country. Therefore, it is important to be conscious while using production inputs and use them carefully so as to avoid waste.

9.2 Methods of Saving

Proper utilization of resources is important because 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.

For example the environments 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.

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.
- 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.

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. 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***. 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.

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. Therefore, as far as saving is concerned, the most important thing for a country to consider is its ***national income***.

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.

9.3 Ways of Improving the Habit of Saving

Saving is an activity that very much depends on income. Income is money that you receive. From the income that you get you may use part of it and keep any extra as savings. You are saving because you want to use it in the future. When you get an income it is important to believe that you should not consume all of it at once. This means you have to try to allocate some of it for saving.

- The first step to start saving is to decide what you have to spend.
- You should not waste money on items that you do not need.
- You have to understand that your income will only buy a certain amount of things to consume.
- After spending on what you need, the rest can be saved.
- You should balance your needs and wants with savings.

One factor that works against saving is doing things without planning. When you are planning, you need to think about your future. We need to make sure that we do not just live in the present.

In developing the habit of saving there are two issues that you need to consider:

1. The avoidance of extravagance and living within your means. If you limit your interests to your income, you should be able to sustain savings. There are many necessary purchases in life. You need to spend your money wisely.
2. You have to learn to understand what your income can purchase including assigning a certain amount for savings.

9.4 Traditional and Modern Institutions of Saving in Ethiopia

Institutions of saving are divided into two: traditional and modern. In Ethiopia there are both traditional and modern institutions for saving and people use both.

9.4.1 Traditional institutions of saving

- The traditional institutions for saving are those established by the community in order to save.
- While traditional institutions vary in different places.
- Examples in Ethiopia are Equb and Iddir.
- Equb and Iddir are examples of what is called **forced saving** whereby, if you choose to engage in it, you have to contribute a fixed amount.
- **Equb** works where a group of people come together and decide to contribute an equal amount of money every month. The total amount collected in one month is given to one person, then the following amount collected will be given to the next person. This continues until all members of the group receive the amount. The person who receives first is considered to be borrowing because he or she gets a total amount first and continues to pay the amount over a certain period of time in equal installments. On the other hand, the person who receives the money last is considered to be

saving because he or she pays a small amount every month and receives the total amount at the end of the cycle. This is considered a forced saving since, once you are involved in it, it is difficult to get out as other people's interests are involved.

- **Iddir** is another traditional saving where people living in a community contribute a fixed account every month so that when a family member dies the Iddir gives services and items, like tents, for the ceremony. This is a kind of saving because it contributes money for future use. These two saving methods contribute to alleviating social problems.

9.4.2 Modern institutions of saving

Modern institutions are similar to everywhere else in the world. The main modern institutions for saving are banks, and insurance companies are widely used, especially in the urban areas.

1. **Banks**
   - are financial institutions that are used for saving and borrowing money.
   - People put part of their income in the bank and in return for keeping it there for a certain period of time they get paid interest in addition to the money they have.
   - The money that is kept with the banks is called a **deposit** and the person depositing is called a **depositor**.
   - The banks then lend this money to people who need money and charge the borrower a higher interest rate.
   - So the working of the banks is similar to that of Equb.
2. **Insurance company**.
   - are places where you pay out a certain amount of money called a **premium every year**.
   - will cover your expenses in case of an emergency according to the initial agreement.

- Usually you have insurance for your property, like your house or car, in case of theft or fire.
- is similar to that of **Iddir** since you get the services in case of emergencies.

You can see from this that you can use both the traditional and modern institutions for saving. By using these institutions it is possible to meet the needs of your family. In addition you can also benefit society by engaging in these institutions with other people. Saving is also beneficial for the society by providing financial resources for those people who want loans. Engaging in these institutions could help other people to save. This all contributes to the development of our country.

9.5 Saving as an Instrument of Investment and Development

Banks receive people's savings and lend money to others. Banks play a significant role in the accumulation of capital. This is because they are instruments through which funds are made available for investment. Banks make funds available by collecting from those people who save. The source of the funds that banks lend, mostly comes from depositors.

The more money people and businesses deposit with banks, the more money they are able to lend for investment. The more people realize the importance of saving, the more money they will save in banks. When people save more money in banks then banks have more money to lend to investors. Not only that, people who save their income also can engage in investment activities themselves.

If you save enough money you may be able to invest in business opportunities. This would make you a business person. Investment is essential in the process of development. When people invest, usually

their production increases and they need to hire more staff. Because of this more people will have jobs and more goods and services will be available. This leads to a growth in income and development. Therefore, saving is important.

There are other sources of funding that can be used for development. There are international financial institutions that give out loans and grants for their development efforts. The well-known big international institutions that give such kind of services are the International Monetary Fund (IMF) and the World Bank. These international financial institutions are established to provide funding for global development. They study the direction of development in different countries and advise them. In addition to this, the international institutions provide financial resources to support the development efforts in these countries. Since 1991 Ethiopia has had very close relationship with IMF and World Bank.

9.6 Regulating the National Economy on Realistic International Principles

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:

1. global welfare;
2. distributive justice;
3. comparative advantage; and
4. Sustainable development.

1. **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.
2. **Distributive justice** deals with fairness in the distribution of socio-economic benefits.
   - It means maintaining equality in the economic status of the people.
3. **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.

4. **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, and 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 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.

9.7 Types of Economy

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. **Micro** means small and **macro** means large and inclusive.

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 behaviors of economic agents, the study of which is known as **microeconomics.**

- **Microeconomics** studies the behavior 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.
- 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 behavior 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 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 process. 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.

9.8 Money and Capital

Bank is 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 international perspective.

- Increasing the source 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 primary 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 amount of loans to the public. These affect the economy significantly and impact on the direction of development. 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 developing countries satisfy some of the conditions specified in the policies. Some 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 that 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 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 labor force from all over the world. Many people from different part 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. 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.

Unit Nine Review Questions

Part I Multiple Choices

1. Which of the following is the way to improve saving habits?
   A. avoidance of wastages
   B. using local products.
   C. limiting one's interest with ones, income
   D. A and b
2. Local products means
   A. goods locally produced by the local industries
   B. goods locally available that are imported from other countries
   C. goods produced at home
   D. all the above.
3. The term scarcity in economics implies
   A. The limited supply of resources
   B. The abundance of resources
   C. The declining demand for resources
   D. The availability of resources
4. Which one of the following is required to improve the low level of saving in Ethiopia?
   A. Seeing increased international aids
   B. Strengthening family planning practice.
   C. Discouraging the use of contraceptives.
   D. Encouraging extravagant expenditure.
5. Traditional methods of saving have been widespread in Ethiopia because
   A. Government policy in Ethiopia encourages the establishment of traditional financial institutions.
   B. Formal financial institutions are not available to the majority of the people.
   C. People would like to save their money in traditional financial institutions.
   D. Traditional financial institutions provide better interests than formal institutions.

6. Of the following, which one is a major ways of traditional saving
   A. Saving in intangible assets.
   B. Saving in cash.
   C. Accumulating capital assets in banks.
   D. Depositing money in banks.
7. Which one of the following shows sustainable use of natural resources?
   A. Increasing pollutants in environment.
   B. Rapid soil erosion
   C. Conserving biodiversity and ecosystem.
   D. Deforestation.
8. Which of the following activities positively affects saving?
   A. Family planning
   B. Corruption
   C. Extravagance
   D. Religious dogmatism
9. A system that provides the outlines of sources of income, direction of expenditure and possibilities of saving is known as
   A. Family planning
   B. Budgeting
   C. Auditing
   D. Income determination
10. All are components income except
   A. Prices
   B. Interests
   C. Rents
   D. Wages
11. Which one of the following Ethiopian traditions greatly encourages saving?
   A. Tezkar
   B. Mahider
   C. Idir
   D. Iquib
12. Which of the following traditional practices involve wastaged resources and extravagant spending of money?
   A. Debbo
   B. Ikub
   C. Idir
   D. Wedding
13. Which one is different from others?
   A. Credit union
   B. Idir
   C. Bank
   D. Iqub
14. One criticism that is currently forwarded against Idir is that
   A. It does not help members who are sick or in problem
   B. It is not led by people who are young and creative

   C. It does not provide service to people living in a wide area
   D. It does not have a fixed meeting time and place
15. The most serious extravagant practice of people in our country is the expenditure for
   A. Funerals
   B. Wedding ceremonious
   C. Graduation ceremonies
   D. Weekend travels
16. Extravagant practices of individuals are discouraged because they
   A. Bring profit to merchants of luxurious goods.
   B. Uselessly destroy resources that could be used for investment
   C. Create contradiction between poor and rich people.
   D. Lead to the growth of the service sector of the economy.
17. Which one of the following set of steps used in managing resources in correct chronological order
   A. Organization, planning, implementation, evaluation
   B. Evaluation, planning, organization, implementation
   C. Implementation, evaluation , planning, organization
   D. Planning, organization, implementation, evaluation
18. Which one of the following undermines saving practices in Ethiopia?
   A. Generosity within the limits of one's income.
   B. Working during religious holidays.
   C. Introduction of birth control programs.
   D. High rate of population growth.
19. Living within the limits of one's own income requires
   A. Advanced knowledge of economics
   B. Earning considerable amount of money.
   C. Spending money beyond one's income.
   D. Determining expense and income.
20. Which one of the following is correct about extravagancy?
   A. Living on one's budget.
   B. Using resources in uncontrolled way.
   C. Making a balance between saving and spending.
   D. Using a saving account in a bank.