

# Lesson 10: Income, Saving , and Investment

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## 1. Lesson 10: Income, Saving , and Investment

## 4. Chapter: Lesson 10: Income, Saving , and Investment

### 1. Lesson 10: Income, Saving , and Investment Questions

#### 4.1.1. Can investment occur without saving?

Author: Robert Murphy

Can investment occur without saving?

- No. The only way there are resources (whether financial or physical) available for investment, is if someone has lived below his or her means, i.e., saved.

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#### 4.1.2. What are the pros and cons of saving a high fraction of your income?

Author: Robert Murphy

What are the pros and cons of saving a high fraction of your income?

- The pros are a higher future wealth and income, the cons are less consumption in the near term.

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### 4.1.3. What's the connection between saving and retirement?

Author: Robert Murphy

What's the connection between saving and retirement?

- People can fund their own retirement lifestyle by saving enough during their working years.

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#### 4.1.4. If someone borrows in order to buy today rather than waiting to pay...

Author: Robert Murphy

If someone borrows in order to buy today rather than waiting to pay cash, is this an example of uneconomical behavior?

- No, it simply illustrates the person's preferences. Just as one person might be willing to pay \$50 on a juicy steak, while another person would regard this as absurd, so too might someone be willing to pay a high interest rate in order to consume earlier rather than later. There is nothing intrinsically irrational or uneconomical about such a decision, which couldn't be applied just as well to other consumer decisions.

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#### 4.1.5. Is it possible for every individual in the community to accumulate ...

Author: Robert Murphy

Is it possible for every individual in the community to accumulate assets for retirement—or does one person's rising wealth translate into someone else's rising debt?

- Yes, everyone in principle can accumulate financial assets to fund retirement. It's not the case that one person's accumulating wealth translates into someone else's growing indebtedness. (It's true that various corporations and other entities must be on "the other side" of someone else's growing stockpile of financial claims, but this need not reflect a growing danger to the corporations, so long as they are using the loans productively.)

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#### 4.1.6. If you expect to live to at least 80 years old, why should you seri...

Author: Robert Murphy

If you expect to live to at least 80 years old, why should you seriously consider saving a large amount of your income and investing it while you are young?

- At some point I will not want to, or even be able to, work full time and earn an income. I will want to have a big stockpile of savings to live off of at that point, so that I don't need to ask my family or the government to support me. Because of compound interest, if I start saving just a little bit earlier in my life, it can have a tremendous impact on how much wealth I have when I retire.

Sample Partial Credit Answer

I need to save so that I will be able to live when I am older.

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#### 4.1.7. Respond to someone who says, "It hurts the economy when people save..."

Author: Robert Murphy

Respond to someone who says, "It hurts the economy when people save too much, because if people don't spend, then businesses can't hire workers."

- When people save, that allows for more investment which fills the gap in spending. After the economy adjusts to the new level of saving, everybody can still get a job. It's just that more workers will be making things like tools and equipment, rather than restaurant meals and music concerts.

Sample Partial Credit Answer

The economy will eventually adjust even if people start saving a lot.

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#### 4.1.8. How does the accumulation of capital goods help workers who don't o...

Author: Robert Murphy

How does the accumulation of capital goods help workers who don't own them?

- Workers are paid according to their marginal productivity. When they combine their labor with better tools and equipment, workers can produce more per hour, so they end up earning a higher wage, even if they don't own the tools they're using.

Sample Partial Credit Answer

If more stuff is produced, people are richer.

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#### 4.1.9. Respond to someone who says, "For every lender who grows rich, ther..."

Author: Robert Murphy

Respond to someone who says, "For every lender who grows rich, there must be a borrower who grows poor."

- This is wrong because it overlooks the possibility of "productive borrowing." A business can borrow money by issuing bonds, for example, and use the funds to invest in expanding its operations. Although the business has to pay out interest on the loans, its investment gives it higher revenues, so it can afford to do so and is better off for having borrowed the money.

Sample Partial Credit Answer

That might be true in some cases but it isn't always true.

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