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THE EFFECTS OF INTEREST RATES ON CONSUMER BEHAVIOUR AND THE ECONOMY

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ABSTRACT:

This article investigates how consumer spending, interest rates, and the economy are related. It covers the impact of changes in interest rates on borrowing costs, consumer spending, saving habits, and investment choices. Higher interest rates typically result in higher borrowing costs and reduced consumer spending, whereas lower interest rates make borrowing more accessible and encourage consumer spending. The current study employed a questionnaire survey approach to collect data from a sample unit of 100 individuals who were chosen at random for the study. After the premise was statistically tested, conversations were undertaken to provide beneficial results. The purpose of this paper is to find how the interest rates can affect the pricing of assets like stocks and homes, as well as saving incentives. In order to make wise financial decisions and successfully navigate the economic landscape, the paper emphasises how crucial it is for an individuals to comprehend these dynamics.

Keywords: Interest rates ,consumer behaviour,savings habits , borrowing cost.

INTRODUCTION:

Interest rates are crucial in determining the dynamics of consumer behaviour and the state of an economy as a whole. Interest rates have a significant impact on both personal and company financial decisions, whether it be for a mortgage, automobile purchase, or even a straightforward credit card purchase. As a result, it has become crucial for economists, decision-makers, and financial analysts to comprehend the complex relationship between interest rates, consumer behaviour, and the larger economy.

The intriguing world of interest rates and their complex effects on the economy and consumer behaviour. I examine how changes in interest rates can have an impact on a number of industries, influencing consumer behaviour, financial decisions, and even the rate of inflation.

OBJECTIVES:

- To analyze the impact on consumer spending
- To identify the effect of interest rate on consumer savings habits
- The impact on changes in interest rate on the economy as a whole

REVIEW OF LITERATURE:

Interest rates have significant effects on consumer behavior and the overall economy. Here are some key references that discuss these effects:

Bernanke, B. S., & Gertler, M. (1995). Inside the black box: The credit channel of monetary policy transmission. Journal of Economic Perspectives, 9(4), 27-48.

This influential paper explores the credit channel of monetary policy transmission, which explains how changes in interest rates affect consumer spending and investment decisions.

Mankiw, N. G. (2000). The savers-spenders theory of fiscal policy. American Economic Review, 90(2), 120-125.

This paper presents the "savers-spenders" theory, which discusses how changes in interest rates influence the spending behavior of individuals and the implications for fiscal policy.

METHODOLOGY:

The tool used for collecting primary data is Questionnaire method.

RESEARCH DESIGN:

The research design is Descriptive technique.

SAMPLING TECHNIQUE:

The sampling technique used is convenient sampling.

RESULTS:

A total of 100 samples were collected.

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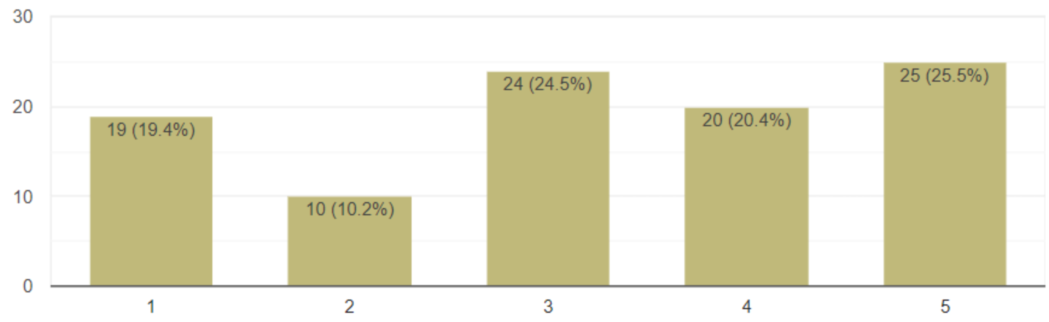
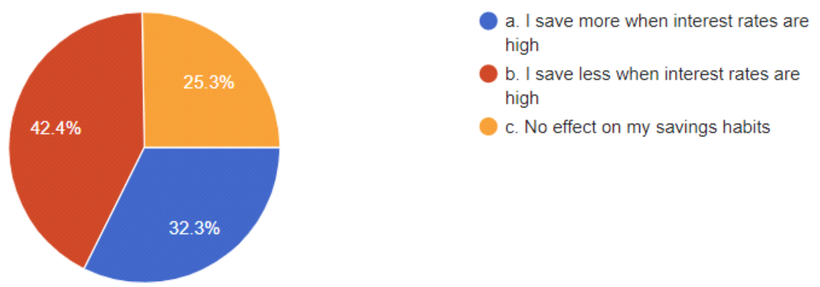
- **Figure 1:** The impact on consumer spending



INFERENCE:

The information demonstrates how crucial the interest rate is when taking out a loan. Data gathered from 100 participants shows that 25.5% strongly agree that interest rates have a positive impact on the public's decision to borrow money.

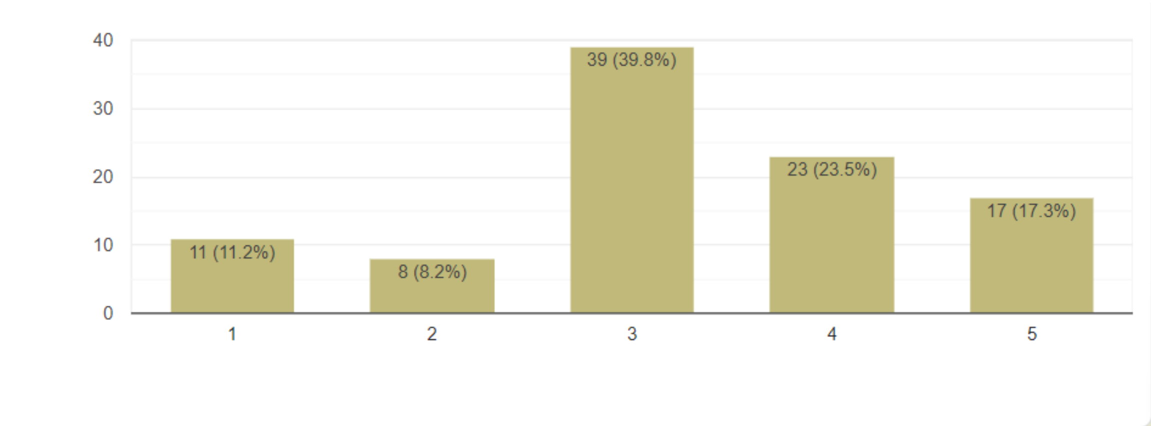
- **Figure 2:** The effect of interest rate on consumer savings habits



INFERENCE:

The majority of individuals, according to the research, claim that when interest rates are high, they will save less because they will borrow less money from banks as a result of the high interest rates, which will drive consumers to lower their spending expenses and leave them with no money to save.

- **Figure 3:** The impact on changes in interest rate on the economy as a whole



INFERENCE:

This data indicates that the majority of individuals believe that interest rates have little impact on the state of the economy.

CONCLUSION:

Interest rates have a big impact on how people behave as consumers and on the economy as a whole. Individuals' borrowing and saving decisions are impacted by changes in interest rates, which in turn affects their spending habits and investment preferences.When interest rates are low, borrowing is more inexpensive, which encourages people to take out loans for a variety of things including buying homes, automobiles, or paying for their children's education. Increased borrowing encourages expenditure, which fuels economic expansion. Additionally, lower interest rates encourage companies to invest in growth and innovation, which boosts productivity and creates jobs.

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