

THE ROLE OF CONSUMERS

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Savings, Investment, and Insurance

Savings are personal earnings that are not spent. There are many reasons that consumers may decide to save part of their money rather than spend it. They may save to take a vacation, buy a house, or send their children to school. How much people saves depends on such factors as the level of their income and personal preferences. The rich can afford both to spend more and to save more. People with low incomes are often unable to save; they may even have to borrow money to meet everyday expenses. And some people who can afford to save may prefer to spend most of their money.

Investments are savings that people put to work to earn additional money. If people keep their extra money in a drawer at home, they are saving but they are not investing. These people are not using what they already have to earn *more* money. A savings account, on the other hand, is an investment. It earns interest. **Interest** is the additional money the bank pays people for depositing their money in a savings account. In most banks, savings accounts are insured by the federal government for up to \$100,000 for each depositor. Money market funds, another form of investment, usually earn higher interest than savings accounts. Money market certificates and treasury bills (“T-bills”) offer even higher rates of interest. Buying property, such as a house, with the hope of selling it later at a higher price can be yet another form of investment.

Many people invest part of their savings in some type of **insurance**. This type of investment protects the insured person against possibly large financial losses that could occur from accidents, long illnesses, or deaths in the family. Under the terms of the insurance policy, the insured person agrees to pay a premium to the insurance company. In return, the insurance company agrees to pay up to a maximum amount to an insured person who suffers a loss.

There are many types of insurance, including life insurance, automobile insurance, and home insurance. Insurance can be useful because few families could afford to pay the large debts that can result from accidents or the death of the main wage earner.

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Budgets

Many consumers plan ahead when it comes to spending their money. They do this by making budgets. A **budget** is simply a list of expected spending and expected income. A budget can cover different periods of time: a week, a month, or a year.

When people prepare a budget, they usually start with those costs they know they are going to have to meet. Rent, electric bills, and loan payments would be in this group. Then they compare these costs with their

expected income for the same period of time. The difference between the two amounts gives them an idea of what they can spend on other things.

No two persons or families have identical budgets. Families with high incomes can afford to spend more on nonessential things, such as sports equipment or long vacations. They may also have substantial savings. Economists advise that everyone should try to save, but many low-income families are unable to do so. Differences in taste, interests, and values also account for differences in budgets. Even people with the same income will spend differing amounts on entertainment, education, clothes, and any number of other items.

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Advertisements

While people may or may not enjoy watching TV commercials, they wouldn't be able to watch many television programs at all without the financial backing of advertisers. The costs of TV programs are paid by advertisers who want the public to learn of their products or services. TV commercials are only one of the advertising methods that businesses use; radio announcements, billboards, and Internet, newspaper, and magazine ads are some of the others. Advertising is a major industry in many countries. In 1999 advertisers spent more than \$165 billion to reach the public.

Advertising is useful for several reasons. It provides a way for consumers to learn about the products available to them. When a person wants to buy a car, for instance, he or she can learn about the features and prices of different models through advertising. Advertising can also help bring about better products. Producers look for ways to improve their products so that they can claim to have a better product than similar ones on the market.

Advertising boosts the nation's economy by increasing people's desire to buy; in this way it creates demand. For example, many children desire certain toys after they see commercials during a children's TV program. This is a very important function of advertising. It is not enough to have a high level of production in the country. For the economy to run well, there must also be a high level of demand.

The advertising industry has many critics. A basic complaint is that the main goal of advertising is not to help the consumer but to increase the profits of producers. Information presented by advertisers is often one-sided: the good points of the product are stressed, but the bad points are not mentioned. Large companies with millions of dollars are able to reach millions of buyers through mass advertising. Small producers may, therefore, have difficulty competing with large producers. And advertisers may try to encourage people to buy products they don't really need.

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Protection and Education

A number of different agencies protect consumers in the United States against fraud and harmful products. All levels of government—local, state, and federal—have such agencies.

At the local level, most cities have departments that inspect restaurants. Both state and local governments enforce laws to make sure that accurate weights and measures are used by sellers. To accomplish this,

inspectors frequently check merchants' scales and gasoline pumps. State and local governments also have strict regulations concerning the quality of perishable goods, such as milk.

The federal government has many agencies that protect consumer health and safety. The Food and Drug Administration (FDA) prevents dangerous foods, drugs, and cosmetics from reaching the market. The FDA has very strict standards for testing new drugs before they can be marketed. Another federal agency, the U.S. Department of Agriculture (USDA) is responsible for inspecting and grading food sold across state lines. The USDA also provides booklets on food and nutrition to the public.

There are several other federal agencies that work to educate and inform the consumer. For example, the Federal Trade Commission (FTC) tries to eliminate false or misleading advertising throughout the country. The list of ingredients and nutritional information on packaged food is included to fulfill FTC requirements. Another agency, the Consumer Information Center, publishes hundreds of booklets to provide important information to the buying public.

There are also some private organizations that help protect consumers. For instance, Better Business Bureaus are sponsored by private business in many cities. These bureaus fight misleading advertising and other unfair business practices. They keep information files on many companies and record any known complaints against them. If people have doubts about whether to deal with a specific company, a call to their local Better Business Bureau can often help them make up their mind. If consumers feel they have been misled or unfairly treated by a company, they can file a complaint with the Better Business Bureau.

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