HOW ECONOMY AND BUSINESS MANAGEMENT AFFECT BY HOUSEHOLD BEHAVIOR AND FAMILY ECONOMY

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Abstract - Household behavior is the production of goods and services by the members of a household, for their own consumption include accommodation, meals, clean clothes, and child care, using their own capital and their own unpaid labor. The household economy describes the collective economic activities of households.The study gives a general understanding of the relationship between income and consumption in times of economic crisis. The study ooked at how disposable income changes in times of economic crisis, which in turn lead to liquidity constraints that force people to cut down their consumption. The study explains how the longer effect on consumption is a result of anticipation of future incomes by consumers and how economic crises affect consumer behavior. Therefore it is possible to identify the characteristic of economic crisis to understand the condition of economic environment faced by households during the crises. The thesis will try to see how family economic crisis affects general consumption behavior as well as affect the Economy and Business Management.

I. INTRODUCTION

The recent economic crisis in world has significantly affected people all over the world in many ways. One of great implications of the crisis is on consumption behavior. People have historically forced to cut down on their consumption in times of crisis. Accordingly, there is little doubt that economic crises and the behavior of consumers in times of crisis is a very important subject of study. More particularly, studies on the effect of the economic crisis on young people would be interesting, since although young consumers do not have steady income sources yet, they represent a large group of active consumer (Furnham, 1999). Despite the undeniable importance of young people as consumers group, little has researched on the effect of the economic crisis on their consumption behavior.

Some previous studies examine the effect of economic crisis on people's consumption behavior in general. Studies like the one by Mckiernan (1996) have shown how economic crises, as explained by the credit market, affect consumption. The study looked at how disposable income changes in times of economic crisis, which in turn lead to liquidity constraints that force people to cut down their consumption. The study gives a general understanding of the relationship between income and consumption in times of economic crisis. Another general view of the relationship between consumption and economic crisis is demonstrated by the work of Blanchard (1993). His study explains "how the crisis affects consumption in a longer term compared to income". The study focuses on the period of 1990-1991 in the USA where there are negative growth in the US economy. The study explains how the longer effect on consumption is a result of anticipation of future incomes by consumers (foresight) or a realization of past financial mistakes such as over borrowing etc (animal spirit) (Blanchards, 1993 p 274). The studies of Bachetta and Gerlach (1997) regarding the effect of economic crisis on consumption reach the same conclusion with Blanchard's work (1993). This study focuses on the credit constrains and its effect on the aggregate consumption. The study uses data from different countries, but nonetheless reaches the same conclusion that when the economic crisis has passed, even though the income of consumers are restored to the level before the crisis, the consumption level tends to lag behind.

II. HOUSEHOLD BEHAVIOR

Household behavior is the production of goods and services by the members of a household, for their own consumption, using their own capital and their own unpaid labor. Goods and services produced by households for their own use include accommodation, meals, clean clothes, and child care. The process of household behavior involves the transformation of purchased intermediate commodities (for example, supermarket groceries and power-utility electricity) into final consumption commodities (meals and clean clothes). Households use their own capital (kitchen equipment, tables and chairs, kitchen and dining room space) and their own labor (hours spent in shopping, cooking, laundry and ironing).

III. THE USE OF LABOR AND CAPITAL IN HOUSEHOLD BEHAVIOR

In the language of economics, labor and capital are the two factors of production. However, labor, the time and effort provided by household members, is really the use of human capital; the second factor of production, capital, is the use of physical or tangible non-human capital (the services provided by land, dwellings, vehicles and equipment). Economics conceptualizes the production process as the use of capital (human and other) together with energy, to transform raw materials and 'unfinished'

commodities (intermediate inputs) into finished goods and services ready for use by people (final consumption). As countries industrialize, a large part of household production of food, clothing, furniture and housing is transferred to business organisations and then purchased by households. Nevertheless, even in a world apparently dominated by the market, a large amount of household production is necessary. Households need to add further value to put purchased commodities in the possession of ultimate consumers in the right place and at the right time.

IV. HOUSEHOLD BEHAVIOR IN CONTRAST TO MARKET AND SUBSISTENCE PRODUCTION

While the market economy produces goods and services not produced by households, (television sets and battleships) in many cases the market and the household are in direct competition, producing identical or similar goods and services. Some examples to consider are: restaurant meals versus home prepared meals; hotel accommodation versus living in your own home; child care at day-care centre versus caring for your own children at home; and being driven to work by a taxi versus driving your own car. Restaurants and taxis usually require immediate payment, if not by cash, then by credit card. In the households' production examples, the household provides its own capital and its own labor; as household services are provided there are no monetary payments by users. Household members do not pay each other by cash or credit card for meals served or shirts ironed. These examples relate to circumstances where both capital and labor are provided entirely by the market or entirely by the household. These modes of production can be called 'pure' market or 'pure' household production. Most meals, accommodation, child care and transport can also be provided as a 'mixed' mode of production with either the labor or the capital being provided by the market, the household providing the other factor. Four separate modes of production are possible depending whether the household or the market provides the capital or the labor. Household production occurs when the household provides both its own capital and its own labor. However, the market can provide either one or both of these two factors of production. For example a housekeeper could be employed to prepare meals, clean the house and do the laundry. This paid housekeeper's time would be the use of 'market labor' in conjunction with 'household capital' - the kitchen, dwelling and household equipment. Again, a household could rent a dwelling and a vehicle (market capital) but do its own cleaning, cooking, laundry and driving (household labor).

V. HOUSEHOLD BEHAVIOR AND THE HOUSEHOLD ECONOMY

The household economy describes the collective economic activities of households. Often the household economy is called the household sector as distinct from the business, government and foreign sectors. However the household sector is large enough to deserve the term household economy. The rest of the economy can then be called the market economy. Thus the transactions between the household and the market are perhaps more akin to international trade between two economies than transactions between different industrial sectors of a single economy. The two major types of inter-economy trade are the sale of labor time by the household and the sale of household goods and services by the market.

VI. MEASURING THE HOUSEHOLD ECONOMY

The measurement of the household economy emerged as a focal point for many researchers once the household was recognized as a major centre of production, not just consumption.

6.1. Importance of Measuring the Household Economy

In the 1970s a number of writers drew attention to the macroeconomic magnitude of the household economy. Boulding (1972) conceptualised households not only as the main driving force for the market economy, with household purchases covering about 60 per cent of GNP, but also as the most important agent in the grants economy. This is the economy of one-way transfers, grants or gifts, given mainly within households from those earning money incomes to other members, children, spouses and dependants not earning a money income. Research on inter-household transfers by Morgan and Baerwaldt (1971) showed that transfers within households in the United States were over $300 billion, three times the transfers of $90 billion from governments and private charity. The additional income created and transferred through household production would probably double the magnitude of these estimates of inter-family transfers. Children and other dependants receive clean, serviced accommodation, cooked meals and clean clothes; the transfers are of transformed commodities purchased from the market which embody value added by household capital and labor.

6.2. Deficiencies in the National Statistics of Work and Production

During the last half-century an almost unrecognized statistical revolution has taken place. At its heart has been the System of National Accounts (SNA) which have been developed by economists and economic statisticians to provide summary measures of economic performance. Amongst the most important are the quarterly estimates of Gross Domestic Product (GDP) and Gross National Product (GNP). Governments now spend millions of dollars collecting and publishing regular quarterly statistics of GDP and of the numbers employed in this production. The regular publication of standardized data on these variables permits comparison not only through time but between nations. Statistics of GDP and employment are not only the common discourse of economists but have been elevated universally as major tools of economic and social

policy including those operating at the international level through the International Labour Office, the International Monetary Fund and the World Bank. In the 1980s a number of writers exposed the deficiencies in statistics of work and production. Among these are Luisella Goldschmidt-Clermont (1982) and Ann Chadeau (1985). Perhaps the most strongly advanced reason for measuring household production is to make women's work visible as exemplified by Marilyn Waring's books Counting for Nothing (1988) and Three Masquerades (1996). Throughout the world, women provide most of the labor needed in household and subsistence production. All of this work is unpaid. On the other hand, in spite of increasing participation of women in paid jobs, most paid work is still done by men.

6.3. Methods of Estimating the Household Economy

Some of the earliest estimates of the value of household services were those made for the United States (by Mitchell for 1919 and Kuznets for 1929) and for Sweden (by Lindahl, Dahlgren and Korb for 1929 and earlier years); they simply multiplied the total number of households in rural and urban areas by the corresponding annual cost of hiring a domestic servant (Hawrylyshyn 1976). The statistical offices of Denmark, Norway and Sweden included household production in their national income estimates prior to World War II. Norway's estimates, started in 1912, were quite elaborate, valuing the unpaid work of married women on average wage income for unmarried women and widows in various age groups. They were discontinued in 1950 when the United Nations recommendations were adopted (Aslaksen and Koren 1996).

The Scandinavian view that the real economic production of goods and services included all goods and services produced by households, whether for their own use or for others, was unable to prevail in the debates about the initial standards for national income and product accounting. The market-based approach to GDP estimates continues. However, the way is clear through satellite national household accounts for separate estimates to be made of the value of household production, Gross Household Product (GHP). The present statistics of employment greatly understate the volume of economic work needed. Surveys across 12 OECD countries covering various years from 1985 to 1992 show that the mean time spent in paid work was 24 hours per adult per week. The mean average unpaid work in the household economy was 26 hours per adult per week (Goldschmidt-Clermont and Pagnossin-Aligisakis 1995; Ironmonger 1995). The present rules used for regular official statistics of the 'employed', 'unemployed' and 'economically active' population cover the engagement of people in the market economy only. These statistics ignore the engagement of people in the household economy. A person is counted as 'not economically active' if engaged only in "household duties", that is unpaid domestic work in the household economy. The representations of work provided by official statistics of employment are thus at variance with those from official statistics of work from time use surveys. In the main, official statisticians still report an outmoded view that unpaid domestic work is somehow not 'work' – only those working in the monetized market sector are counted as being "economically active". Three methods of imputing a value to the time used in household production have been used, all taking a wage per hour from the market economy. The first is the "opportunity cost" wage that a person could be paid for doing an extra hour of work in a market job rather than an hour of unpaid household work. The cost of an hour of household work is the forgone opportunity to earn in the market. This method is usually rejected since it yields different values depending on who performed the task. The second method uses the wages of specialist paid workers who come to the household, eg. a cleaner, a cook, a nanny, a gardener, to value the same tasks performed by household members. This "specialist replacement cost" method can be criticized because these workers work more efficiently than a usual household member can, taking less time to perform the same task. Finally, a "generalist replacement cost" method of valuation uses the wage rate for a generalist worker or housekeeper. This is regarded as more appropriate since the working conditions and range of activities are similar to those of household members. Time use surveys provide only one source of information about household production since they omit the contribution from non-human capital (the land, dwellings and equipment owned by households). A more complete national accounting approach to measuring and modelingthe household economy is required to cover all factors of household production, all intermediate inputs and all the principal outputs.

VII. NATIONAL HOUSEHOLD ACCOUNTS AND MODELING THE HOUSEHOLD ECONOMY

7.1. Extended National Accounts

A number of scholars have suggested that national accounts needed extending to cover missing non-market household production. Essentially they viewed household production as a missing part of the estimates, not a separate economy. Robert Eisner and colleagues at Northwestern University conducted the most extensive work on these lines in the 1980s.

Their research culminated in the book The Total Incomes System of Accounts (1989). Eisner's estimates for the United States make clear the greatly expanded role, in total economic product, of households. United States GHP in 1981 was put at $1,709 billion, 37.5 per cent of the extended GNP of $4,560 billion.

7.2. Household Input-Output Tables and Satellite Household Accounts

The input-output approach to measuring and modeling the industries of the market economy associated with the work of Wassily Leontief (1941) has been applied to measuring and modeling the industries of the household economy. This was started in Australia for Australian households (Ironmonger 1989). Input-output tables showing the uses

of labor, capital, energy and materials in each of the main and ancillary industries of the household economy have now been prepared for Australia, Canada, Finland, Norway and the United States. How the household economy uses time, materials, energy and capital can be seen from the following table adapted from the first published household input-output table. This is for the Australian household economy.

Table 1: Household productive activities, Australia, 1975-76 $million

INPUT	Intermediate Inputs		Factors of Production		Total
	Materials	Energy	Labor	Capital	
OUTPUT					
Meal Preparation	6 219	144	7 922	1 140	15 425
Cleaning & Laundry	271	32	8 140	813	9 256
Childcare	1 208	187	4 717	588	6 700
Shopping	745	224	4 969	453	6 390
Repairs & Maintenance	483	7	1 825	283	2 599
Other Domestic Work	362	7	1 743	172	2 283
Education & Community	392	8	2 088	122	2 609
Gardening	46	-	1 496	182	1 725
TOTAL	9 726	609	32 900	3 753	46 986

Source: Ironmonger D, Sonius E 1989 Household productive activities. In: Ironmonger D (ed.)

Households Work Allen & Unwin, Sydney Table 2.3 p.30 The household input-output tables are exactly the satellite accounts that have been recommended in the 1993 revision of the SNA and in the resolution of the Platform for Action of the 1995 Beijing Women's Conference. The world statistical agencies need to establish standardized methods of estimating GHP.

VIII. HOUSEHOLD BEHAVIOR AND A WORLD OF BINARY ECONOMIES

The major scientific achievement of this field has been the measurement of the magnitude of household behavior through surveys of the uses of time. Household behavior is now recognized as an alternative economy to the market; in many countries the household economy absorbs more labor and at least one third the physical capital used in the market economy. In future, national statistical organizations will produce regular estimates of GHP. Data on outputs of household behavior - accommodation, meals, clean clothes and the care of children and adults - will complement data on inputs of unpaid labor and the use of household capital.

CONCLUSION

This study aims to look at how the economic crisis affects the consumption behavior of people. In addition this thesis also looks at the moderating people's perceptions on the influence of economic crisis on people's consumption behavior. Looking at the effects of relationship between economic crisis and consumption behavior, arguably the effect of the economic crisis depends on how peoples lives deal with the situation.

To conclude, people are early adults who are undeveloped financial actors as suggested by their consumption behavior. They are more reckless with their money and do not think in long term plans. They also like to use money and consumption as a means of power.

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