Determinants of Household Savings: A Case Study of Yazman-Pakistan

Mariam Abbas Soharwardi[1], Dr. Abdul Sattar Khan[2], Maiwand Khan Sherani[3]

Abstract:

The present study intended to prober the impact of household savings behavior of Pakistan and based on primary data which collected from the both the rural and as well as urban areas of Yazman a city in District Bahawalpur. The total household saving is the Controlled variable, and the Income of household head, Children education expenditures, Income source, Land size in acres, total Unmarried, the total Family size are the Explanatory variables The estimation of Ordinary Least Square (OLS) indicates that there are four variables showing the significant results and suggested that households are less likely to save due to Children's educational expenditures, Family size, value of house and liabilities to be pay. The Income of head, Income sources, and the Land size in acres which have positive impact on total household savings.

Keywords: Household savings, Income Sources, Land size, Family Size

I. INTRODUCTION

Saving is the chief macroeconomic variable through it a country can procure potential investment and thus it accelerates the economic growth. National saving are collected through the private and public savings, while private saving contains household saving as major part. By knowing the household income between consumption and saving which is difficult task due to the several factors takes accountable to them vary over region, time and community. The various studies examined that how a rural and urban population care for itself against income difference and to what amount the people use savings to charming consumption in comeback of sudden shocks, often due to weather inconsistency (Deaton, 1992; Paxson , 2001; Kazianga and Udry, 2006). In the purview of Pakistan the situation of political instability, inflation, floods, earthquake, Load shedding and security reason for the domestic investment as well as and foreign investment which have badly affected by these anxieties. Aside this the main players in the economical and political sector are deposited their monetary or financial assets in the foreign countries because of strict measures of taxation or political instability in the country.

1. Lecturer Department of Economics
The Islamia University of Bahawalpur
ma_eco@hotmail.com
2. Department of Economics
The Islamia University of Bahawalpur-Pakistan
a.s.khan@durham.ac.uk
2. Executive Director (SEED)
Sheen Ghar Educational Environmental Development Organization:
maiwandsherani@yahoo.com

Due to the different crises which compelled the Pakistan to depend the international loans and other type's assistance from the foreign countries to run up country, and this type of all activities are done on the strict measures. This strict measure includes in the form of higher taxes and extra charges from electricity which burden to much falls on households which more affected their savings by different way. In recent decade, the newly emerging economies of the world established new banks for the assistance in investment and providing the loans on soft measures to the less developed countries (LDCs) for their development and

economic growth. Like BRICS [Brazil, Russia, India, China, South Africa] and Asian Infrastructure Investment Bank [AIIB] is the examples of it. So in near future the strict measures of International Monetary Fund [IMF] or World Bank will be compelled to bring softness in their attitude regarding to Pakistan due to the resistance of newly established banks by the fast rising economies of the world, which will be stimulate the savings of Pakistani household's by different ways.

It is quiet not to deviate from our study to highlighting and giving more concentration on the oil prices which gradually decreases in recent period, which will be hopeful for less developed countries (LDCs) like Pakistan and it would cheer the household savings directly or indirectly

The issue of saving judgment has short run and long run importance for macroeconomics investigation as concerned to Pakistan. Basically aggregate saving regulates the size of capital stock and the main source of standard of living. Saving can increase the total demand by increasing the domestic consumption, level of investment, interest rates, exchange rate as well as the growth rate of the economy. Efficient consumption and mobilization of domestic resources are the main goals today for the self-reliance and sustained growth (Khan 1993). Because of these reasons, analysis of saving behavior and the knowledge of the determinants of saving is necessary for policy making (Nasir &Khalid 2004). In order to encourage economic growth and welfare of the underdeveloped countries savings is considers an important factor. Moreover the credit and insurance markets has unproductive and underdeveloped in poor countries like Pakistan. Savings are the important source of raising the household wealth and assets through structured financial markets and smooth out the unpredicted difference in their incomes. In addition, savings are the only source of raising wealth and assets of the society.

In this way, it would be exciting to investigate the consumption and saving behavior between the urban and rural savings to the economic and socio- cultural measurements of such behavioral patterns. While condition of Pakistan's economy concerning National Savings are changing very quickly during last period. It has obvious that during the years when foreign savings were negative. Pakistan national savings were at the maximum up to 20.8 percent of GDP. As foreign savings became positive, National savings started to debility. When foreign savings were at its maximum up to 8.5 percent of GDP, National savings were least up to 13.5 percent of GDP in 2007-08. They brings up the need to examine the factors of household savings particularly at micro level for the unchanging rate of national savings at a suitable level

Objectives:

The objectives of this study are as follows:

(1) To know the household savings impact in the different areas of Pakistan.

(2) Difference of savings behavior in the people.

II. REVIEW OF LITERATURE:

A study established by the Khan*et al.*, (1994) to examine the determinants of saving rate in Pakistan in terms of a variety of factors, which have a strong and positive effect of per capita GNP on national saving .The study displayed that real interest rate, change in terms of trade and standards of the economy positively influence national saving. Both debt to GNP ratio and dependency ratio were institute to have opposing impression on national saving. A more focused study of Husain (1996)

examined the importance of financial development and covering for saving in Pakistan by using co-integration technique and establish fairly effects of these variables on savings .While using micro level data, Siddiqui and Siddiqui (1993) found that a higher interest rate increases the present price of consumption relative to the future price (the exchange effect), and thus delivers an incentive to increase saving. However, if the household is a net creditor, the interest rate rise also raises life time income, and thus tends to increase consumption and decrease saving (the income effect). Thus saving proceeds positively to increases in the interest rate only if the exchange consequence is stronger than the income effect. It could be opposed that, for the typical developing economy the net influence of a change in real interest rate on saving is likely to be save. The role of micro-level determinants of household participation in savings is also presented. In particular, this study reflects the impression of different economic and demographic variables on household savings, which are linked to the characteristics of Pakistan households. This survey adds to the literature on household savings in many ways.

Rehman et al., (2010) studied the factors of household savings based on data collected from Multan, a district in Pakistan. Data of two hundred minty three respondent were drawn in stratified random sampling technique for data collecting and analyzed through the multivariate regression model. Age has positive and square of age was negatively related to household savings .Education of household head, children's educational expenditures, family size, liabilities, marital status and value of house were significantly and inversely affecting household savings.

Abid and Afridi (2010)   assessed the household savings pattern of urban and rural household in district Muzaffarabad in Pakistan. The Dependent variables was the urban and rural household savings and income, total family size, locality and education of the household on savings form was independent variables .Results specified that income and locality have positive education and family size have negative effects on savings behavior of household .The analysis concluded that there was a strong relationship occurs between saving behavior of household and recommended variables.

Ersado et al., (2000) investigated the fluctuations in household consumption and savings behavior before and after economic shocks in Zimbabwe, which have a low income country with 67% of its population living in rural areas. The major tremors of the economy in 1990s contain drought and macroeconomics alterations. The survey were undertaken by the central statistical office (CSO) and the data were comprise on socio demographic characteristics, incomes, incomes from household together with agricultural consumption and other expenditure on weekly basis .Durable and nondurable items on a monthly or yearly basis. It concluded that the changes in consumption and savings behavior before and after the scarcity and structural changes. Aside this various studies examined that how a rural and urban population care for itself against income difference and to what amount the people use savings to charming consumption in comeback of sudden shocks, often due to weather inconsistency (Deaton, 1992; Paxson , 2001, Kazianga and Udry, 2006). A number of studies of (McKiernan, Radcliffe, and Vino pal , 2009) concluded that Assets play the significant role for low income families by experiencing financial hardship payments, and food insecurity.

Muradoglu and Taskin(1996) examined the savings behavior in developing and industrial countries from a cross-country prespective and used household data from the U.N. system of national accounts, While saving behavior of developing

and industrial countries using the same data set. Since the data set did not contain government and commercial savings. It was found that the factors of household savings behavior for industrial countries were not effective for developing countries.

Athukorala and Sen (2001) examined the determinants of private savings in India during the period (1954-1998), and the methodology complicated the assessment of a savings rate function imitative within the life cycle frame work. Term of trade changes and secret remittances by expatriate Indians seem to have a negative impression on the savings rate and there were also a clear role for fiscal policy in increasing total savings in the economy with the private sector. And aside this the Public saving as a defective additional for its own savings economic development.

III. DATA AND METHODOLOGY:

Sampling and Survey

The paper is absorbed on collection of primary data from the field survey. Data is collected through interviewing the persons in a face to face situation. The interviewing question were founded into English and were asked question in English, Urdu, saraiki and Punjabi. In the sample there are 120 respondents, by adopting the procedure of proportional allocation, and it collected for the both from the rural and as well as urban areas of city Yazman District Bahawalpur. Central variables of interest linked to households which consist of, education level of respondent, children education expenditures, income from various sources, land size owned, financial organizations of saving, savings/deposits and marital status are independent variables, while the total household savings behavior in different areas aredependent variable.

Model Specification

To explores the households saving which affected by different factors and these factors may analyzed by the OLS method and it may be written as in the form of a function:

Savings=f(income of head ,income sources ,total unmarried, total family size, children education expenditure, Land size in acres)

IV. MODEL:

In order to identify the factors which determine the households saving in different rural and urban areas of Pakistan, thus we have constructed our model as:

Savings= β_0 +β_1(income of head) + β_2(total family size) + β_3(income sources) + β_4(children education expenditure) + β_5(Land size in acres) + β_6(,total unmarried)

V. VARIABLES AND EXPLANATION:

The descriptions of dependent and independent variables which were used in paper are following:

Table-1: Descriptions of Dependent and Independent Variables Used in the Model

Description of the Variables

Dependent Variable
Income of household head= IOH
Marital status= MS
Family size= FZ
Income source=IS
Total children education expenditure= TCEE
Land size in acres= LSA
Independent Variable
Total savings of household= TSHH

VI. RESULTS AND DISCUSSION

The empirical results indicates that if the income of household head will be increase then their savings will be increased. If the family size of head increase then it effect the savings of head and saving level decreased. If the income sources decreased then will be effects the savings of head .the saving will be decreased .if the children of head no or less if their expenditure will less than the effect of savings has positive. The household head have more land than their savings has more .if their house has many unmarried people then the negative impact on the savings. There have been positive relationship between the total savings and the independent variables. Significant level shows the higher positive result.

The table 2a give more Supportive information in the following function which:

Savings= -248.607+.029 IOH+28.242TFS+161.327IS+.065CE+50.034LSH+318.331TUM

There are four variable showing the significant relationship, their constant level is -2480.607 percent.

Table-2a: Ordinary Least Square (OLS) estimation for the total household savings

Variables	Un standard coefficient		Standard coefficient	T-Ratios	significance
	B	**Std .error**	**Beta**		
IOH	.424	.029	-1.360	14.593	.000*
FZ	-199.899	281.242	-.075	-.711	.479
IS	114.522	161.327	.036	.710	.479
TCEF	-.539	.065	-.782	-8.348	.000*
LSA	141.397	50.034	.147	2.826	.006*
MS	-1.778	318.331	-.001	-.006	.996
Constant	-2480.607	1067.019	0	-2.325	.022*

*There are four variables showing the significance

R	R Square	Adjusted R square	Std. error of estimate	Durbin Watson

| 0.857 | 0.734 | 0.720 | 2623.117 | 1.781 |

Table-2b: Ordinary Least Square (OLS) estimation for the total household savings

In table 2b where the F Statistic Measure the significance of explanatory variables, and the value of R-square is 0.734 which shows the 73 percent of total savings is explained the independent variables used this model. The results also confirms that there is no autocorrelation and the value Durbin Watson is 1.781 in the above table 2b.

VII CONCLUSION

The value of R-square is 0.734 is showing the 73 percent variation in the savings due to the income of household head, total family size, income source, children education expenditure, land size in acres and total unmarried. The T-Ratios for the income of head, total family size, income source, children education expenditure, land size in acres and total unmarried are very high which indicates that these six variables have more significant impact on saving the household. The overall F-Test is also significant showing that models as a whole is significant. If all the variables of our dependent variables is -2480.607 that all other variables which are not included effect savings negatively. If the one unit of variable in income of head increase then, the dependent variable (Total household savings) will increase. If his children and unmarried people increase then that effect his income and declined the saving of household. If the household have more land than their savings will increase.

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