

INVESTMENT AND CONSUMPTION



vEcoSys

**Difference between
investment and consumption**



INVESTMENT AND CONSUMPTION



Let's say you have Rs 1 lac with you. With the Rs 1 lac you start a business. The business earns Rs 20,000 per year. Clearly you've added to the value of Rs. 1 lac By Rs 20,000 This is known as investment because you increase the value of the money



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Let's say you buy a car with the Rs 1 lac

If you didn't have a car of your own earlier, this car brings comfort and enhances your efficiency. The car takes you to your office in more comfort. You're able to work more and work better. Your social status increases and your boss is pleased by your performance.



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He gives you both a promotion and a raise. If you were earning Rs 50,000 per month earlier, your new raise has let's say taken it to Rs 75,000 per month You've thus increased your wealth by 50% per month. This "car" purchased too can be considered an "investment " because it helps to increase your wealth.



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Now let's say you spend Rs 20,000 on the car by changing its upholstery. Clearly this spending is “consumption” because the changed upholstery would hardly have an impact on increasing your overall wealth.



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So the spending that increases your overall “wealth” is an “investment “while the spending that does not increase your “overall” wealth is “consumption.”



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Investment and consumption are also two sides of a coin. If you were to buy shares of the company making upholstery which you bought, it would be investment while purchase of the upholstery was “consumption”

So how are you impacted if the price of the upholstery goes up?



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If the price of the “upholstery” goes up, you’ll certainly feel the pinch as a consumer. However as an investor you may laugh all the way to the bank if the share prices go up on account of high demand of upholsteries.



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Hence, clearly it is important that there is both consumption and investment in an economy for the economy to grow in a balanced manner.

On the other hand even you as an individual need to partake both in consumption and investment to enjoy a balanced life which gives you returns while at the same time allowing you to enjoy some luxuries of life.



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Hope this story has further clarifies
“investment and consumption”



Thinking of Investment

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