Poverty and Microeconomy of America

Name

Institution

Abstract

Poverty and microeconomics are highly related that the levels of poverty dictate consumer behaviors. The relationship between the two has widely been explored by researchers who specifically focused on America. In fact, poverty levels have the greatest influence on consumer behavior and hence microeconomics. One cannot study the microeconomics aspect of a given economy without reference to the poverty levels of the demographic area in question. This paper gives a detailed insight into the concept of microeconomics, poverty, and the relationship between the two with regard to America. Literature on the subject and earlier work by researchers are referred in developing the paper. The paper shows that poverty among the Americans has influenced their purchasing behaviors not only for consumable and durables but also for housing and other services such as healthcare. This is achieved with particular overview of the poverty status in America.

I. Introduction

Poverty in many of the world countries is largely defined with reference to the income levels of its citizens. It is common for countries to have set poverty lines people living below or slightly above the set poverty lines are termed as impoverished. Those living well above poverty lines are clearly not impoverished. Where to set poverty levels is a debatable issue depended on respective country's economy. Remarkably, the levels of poverty, although variant across countries, have great correlation with the consumer behavior and hence microeconomics (Bade & Parkin, 2001). Although the effects of poverty are prevalent in the less developed and developing nations, the effects are still noticeable in industrialized countries such as the United States. The market behavior of consumers and hence citizens in a country's depends largely on poverty and income levels of the respective countries (McGuigan & Moyer, 2001). This paper evaluates the correlation between poverty and microeconomics with particular reference to the United States economic demographics. That is achieved through a discussion of microeconomics, insightful assessment of poverty in the country, and a discussion linking poverty and microeconomics in the United States.

II. Understanding the Microeconomy

In economics, microeconomics is the branch that entails analyzing market behaviors of individuals and firms in pursuit to understand human decision-making process of consumers within a specific economy. Microeconomics is largely concerned with the relationship and interaction between buyers and sellers with regard to the factors that influence the consumer decision and hence choice. Particularly, microeconomics focuses on determining and understanding the demand and supply patterns. It also seeks to understand and reveal factors determining output and price of specific markets (Frank, 2006). In this paper, the various forces determining how individuals and firms adopt consumer behaviors depending on various economic forces in the United States are established and discussed in details.

III. Insight into the Americas Economic Structure

Americans pride over a general perception that the US economic system provides equal opportunities for all people to lead good lives. This perception, however, is clouded by the fact that poverty continues to persist in various parts of the country. Appreciably, government interventions and efforts to mitigate the problem have made commendable progress although failed to eradicate the problem comprehensively (Bade & Parkin, 2001). Researchers interested in the economic demographics of the United States revealed that the country has significantly high levels of income inequality and relative poverty when compared with other OECD countries (Darley & Johnson, 2005). This observation has been shown to be a consequence of various disheartening statistics such as low intergenerational social mobility, and poor and weakly income growth for various households (Mankiw, 2000). Surprisingly, these observations have been made at a time when the government-initiated periods of intense economic growth characterized by more jobs, and higher wages.

The federal government has in the past and continues to set the minimum income level for maintenance of a four-member family. This amount, often set on annual basis, fluctuates based on the cost of living and location of family in question. The percentage of people living below poverty level has continually declined, which is a change that may be attributed to the government's efforts to improve people's lives (Official Congressional Directory, 2014). The ratio of people living in poverty has continually oscillated within a narrow range at an average of 12.3 since 1998. The variation, however, was greatest between 1959 and 1978 when it fluctuated from 22.4 to 11.4 percent. Noticeably, poverty levels and hence economics vary by place and racial groups (McGuigan & Moyer, 2001).

IV. Poverty in America

Poverty is a paradoxical issue in America. The US per capita incomes are among the world highest. Surprisingly though, United States still has a significant percentage of its population living before the federal poverty line. Nevertheless, many of the Americans still live below poverty lines of other industrialized nations. This makes many people wonder how and why a country as rich as America has many poor people. Clearly, there is not straightforward answer to that question (Dunne & Jensen, 2009). This is because the notion of being poor is relative and the definition is not common throughout the world. However, numerous factors at play determine poverty levels in specific situations. Different criteria are used in determining who is poor and who is not poor in different economies. In the United States, the federal government has a set dollar figure, the poverty line, which families must meet to if not poor. The figure varies from time to time subject to revisions by the federal government (Hicks, 2006).

Poverty, although can be defined in various ways, is the state of lacking or having limited resources to provide for personal and family basics. In addition to that, poverty may be though as the force that compels people to forego necessities such as shelter and three meals per day. Notably, though, poverty encompasses situations such as the access to shelter but limited resources for other things such as money for medical attention, food, and clothing (McGuigan & Moyer, 2001). Although extreme poverty is not practically existent in OECD countries such as America and Britain, low levels of income and partial poverty has significant influence on consumer behaviors, both at individual and at firm’s levels. Poverty, therefore, is an important factor in America particularly regarding income inequality and relative poverty. Noticeably, economic growth in America, just like in other OECD countries, has continually advantaged the rich compared to the poor (Official Congressional Directory, 2014). The result is increasing inequality and poverty levels among the citizens. The average income of America's top 10% richest citizens is sixteen times that of the America's poorest 10% (Bade & Parkin, 2001).

Poverty in the United States is characteristically cynical with approximately 13 and 17% of the population living below the federally set poverty line at any one given time. Approximately 40 percent of the total populace falls below poverty line at least once in every decade. Most Americans constituting about 58.8 percent spend at least one year under the poverty level for every set of 25 to 75 years (Mankiw, 2000). These figures imply that there is some controversy over whether the federal poverty line understates or overstates the official poverty threshold. "Poverty threshold" is the common measure of poverty used by the US government. This measure is adjusted to comply with inflation using consumer price index (Hicks, 2006).

Income levels, which are an important factor in determining poverty levels of a household, vary along racial/ethnic lines as well as the nature of the family in question. For instance, about 21 percent of America children live in poverty with 46% of these being African Americans and 40 percent being Latino (Official Congressional Directory, 2014). These figures indicate that poverty is prevalent among the African Americans and Latinos. Other factors such as wage levels are critically significant in any topic on poverty and microeconomics of the America. Black women in their mid 30s and early 40s have a working spouse with high incomes. Poverty rates among naturalized whites are at about 9.6% whereas the poverty rate among naturalized blacks is at 11.8 percent (Ruffin & Gregory, 2000). The rate is comparatively high at

25.1 percent for native America blacks (Onyiri, 2011). The impression is that race is not a major determinant much as poverty levels may vary with race.

Studies on poverty trends in America have revealed that minorities are not necessarily the poor constituents of the US populace. Asian households, for instance have periodically reported comparatively higher mean incomes not only when gauged against Hispanics and blacks but also when compared with the whites (Darley & Johnson, 2005). For instance, the median income for Asian families was recorded at $68,957 against $59,124 recorded for the whites in 1995. The mean value was $88,372 and $76,327 respectively. Asians, however, have repeatedly expressed concerns that they are discriminated against more often compared to blacks. On average, employment discrimination against blacks has oscillated about 31% whereas that of blacks is comparatively lower at about 26 percent (Official Congressional Directory, 2014).

V. Poverty and Microeconomics

Studies have previously revealed diverse findings on consumer behaviors among different groups of low income or poor populations. For instance, Goodman and Berry, in their study found that many of the Philadelphian poor population did basic grocery shopping in chain supermarkets. In a different study, though, Wall and Groom revealed that low-income consumers had a strong propensity to shop in small stores within their neighborhoods (Onyiri, 2011). Both researches revealed a common finding that the poor have a restricted shopping scope. Such consumers know little about store alternatives because they have little interests on alternative shopping places. These findings is illustrated and supported with a set of findings by Dunne and Jensen (2009) who indicated that low-income consumers have advanced psychological and physical restrictions on mobility. Notably, poor family consumers may forego the search because they find it unnecessary to the purchasing decisions. Some perceive of product search from different store as psychologically costly (Bade & Parkin, 2001).

Low-income earners have been shown to have low identification with brands. Regarding information search about various brands, these consumers tend to seek for information about popular brands, which contributes to the rise in cost of such brands. This is because they resultantly constitute a wide market share for the brand. High demand for popular products triggers price increase for the specific brands (Frank, 2006). The brand marketers get the signal that the demand for their products is high and respond appropriately, with increase in supply and consequential rise in price. Lack of interest in information search among the poor sends a misconception that even low-income consumers prefer highly priced products (Onyiri, 2011).

As illustrated in the preceding paragraphs, researchers have revealed that a significant percentage of low income families depend on peddlers and neighborhood stores. They disregard bureaucratic impersonal ones. This characteristic is attributed to the common fact that most of them feel insecure in shopping from department stores. Some even show anxiety when interacting to salespeople. Noticeably, the poorer the family then the narrow the shopping scope (Dunne & Jensen, 2009). Often, buying from peddlers and neighborhood stores costs more for the same goods consumers would have got from a department store. Literature on microeconomics on consumer habits among low-income earners shows that recommendations by word of mouth are heavily depended upon when making major purchases. Many of these consumers prefer making purchases from friends or relatives retailing whatever products they may want. They also rely on connections known to their friends and relatives. This common habit among the poor is attributed to the fact that the consumers want to be certain about their purchases (Ruffin & Gregory, 2000).

Various researchers have shown that low-income consumers have little consciousness on the nature and existence of specialized information services for the different categories of consumers. In addition to that, there is considerable research evidence that the poor have comparatively limited knowledge in virtually all aspects of the market place. The limited nature of their knowledge on market place is highly attributed to the perception that search to information makes no sense in their consumer decisions (Darley & Johnson, 2005). It also seems psychologically costly for them. Remarkably, literature on consumer behavior among the poor shows concrete evidence that the search for information, product evaluation, and choice process among the low-income consumers tend to be less extensive and diffused. In addition to that, the buying process tends to be irregular because of financial and social factors (McGuigan & Moyer, 2001). This in turn causes a high degree of uncertainty and possible regret regarding their choices.

`A study on the impact of poverty on consumer behaviors by Mankkiw (2000) revealed that low income senior citizens exhibited several characteristics. He showed that low-income earners have a tendency to engage in morning shopping rather than nighttime shopping. Secondly, the group has great tendency and preference for purchase of consumer durables from the Central Business District. Thirdly, this group showed evidence of tendency to engage in physical search more often than any other group of consumers. The search, though, was shown to be comparatively less intensified. These study findings derived from Hispanic residents reveals that the low-income consumers cannot be grouped together and general conclusions drawn. Clearly, consumer trends vary across different social and racial groups as hinted earlier. Apparently, the studies sample of senior low-income citizens behaved like senior citizens while also behaving as low income consumers at the same time (Mankiw, 2000).

This far, much of the research and results of earlier studies on low-income consumers has largely been descriptive. For instance, it is perceived that majority of the poor citizens live in the rural and suburban areas, belong to a family headed by a single mother, has no family head particularly man at his prime working age, and has many children aged below fifteen. There, however, are some exceptions of few studies such as Verhallen's 1975 (Bade & Parkin, 2001). Much of the studies in this have been of the ad hoc type and unrelated the existent theories on consumer behaviors. Clearly, there are more factors behind the choice and decision of low-income consumers particularly in the United States where the poverty levels are high compared with many of the world countries (McGuigan & Moyer, 2001).

Often, low-income families tend to have negative net worth that they have debts exceeding their assets. Some subcultures have solvency as an important moral obligation. The fact that the seriousness with regard to the importance of solvency varies from across subcultures means that the tightness in the control of family finances vary across ethnic groups. Poor families often save little if any and are seldom covered by insurance (Frank, 2006). Their investing and saving patterns are undeveloped with little regard to the value and importance of life insurance. Often, the poor prefer the traditional forms of savings such as savings accounts that can be liquidated with ease. They prefer low risk investments with the few who think of further investments focusing on farming, real estate, and private businesses, they seldom think about insurance, bonds, or stocks (Hicks, 2006). In fact, insurance is only perceived as the facilitator for burial expenses or support for surviving dependents.

Regarding financial planning and effectiveness in decisions making on financial management, education has proved to be significantly important than the level of income. Several attitudes, however, have been shown to be at play here. People with characteristics such as materialistic, fatalistic, traditional, pessimistic, and impulsive in perceptions have been shown to be less effective in planning their expenditures (Frank, 2006). Because of the consciousness of their economic and financial status, poor families often show good communication with strict financial planning that amounts to good consumer practices. Many, especially those who live slightly above the poverty level, are even keen with financial spending. That helps to avoid toppling and falling on or below the poverty line. This, however, happens unconsciously but is attributed to the consciousness of being low-income consumers (Darley & Johnson, 2005).

Most of the low-income families prefer living in the various city public houses where they pay cheaper for the facilities. Notably, though, only a few public housing facilities can accommodate large families, which necessitates that such families seek private housing at a higher cost. Many are forced to device living arrangements to relieve the problem. Appreciably, low-income families appreciate that paying more than 20 percent of their income for housing deprives areas such as nutrition and medical care their share (McGuigan & Moyer, 2001). Often, families will strain to meet fixed and regular expenses and postpone or even forgo what can be stretched. For instance, many may never spent on recreation. It seems logical to consider twenty percent as the maximum expenditure on housing rather than the mean average for low-income earners. Poor families aspiring of owning homes still consider their financial status. They yearn for modest homes of a size suitable for their family size. They have little concern on what the neighborhood of their aspired homes can offer like is the case with middle and higher-income families who seek for calm and high security neighborhoods (McGuigan & Moyer, 2001).

VI. Conclusion

In summary, there is significant correlation between poverty and microeconomics. This is with specific reference to the fact that the levels of income of the consumers in question highly influence consumer behaviors. The levels of income determine whether a consume falls in the category of low income or not. Microeconomics is largely concerned with market trends particularly the flow of goods, demand/supply patterns, and factors influencing the prices of products and services. The poverty level in America is shown to have great influence on consumer behaviors in sectors such as housing, health, consumables, and durables. Low-income consumers are shown to have greater preference for prominent brands because they disregard the idea of making searches across stores or making choice on brands. Such consumers are sensitive on how they spent their money, which requires them to observe a strict financial plan. Often, these consumers go for dominant brands whose marketers respond by increasing the prices because of the high product demand.

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