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The Double Edged Blade of Consumerism & the Impossible Trinity – Bangladesh

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Abstract

This paper demonstrates how a change in monetary policy by lowering the interest rates can lead to a decline in savings in the short run. Almost perfect correlation coefficient exists between declined marginal savings and increased household desire to either invest or spend; hoarding proves to be minimal but there are limits to household investments. Corporate investment is also possibly affected by the new policy as consumerism and lower cost of capital encourages the firms to invest. Consumption also leads to indebtedness. However, the consumption patterns, capital flight and borrowing motives proves to be of alarming significance to the policy makers. In the long-run, monetary expansionary policy is forecasted to be ineffective.

Keywords: Monetary policy, interest rate, Saving-Consumption-Investment Imbalance, Product Influx, Impossible Trinity, Consumption Pattern, Debt Motivations, Capital Flight

1. Introduction

It had been projected prior to 2015; Bangladesh will have attained a growth of 6.5% by the end of fiscal year 2015-2016 (The World Bank, 2015). To attain growth, in the first quarter of 2015, the Bangladesh Bank which is the central bank of the country (that theoretically runs independently), had decided to adopt a monetary expansionary policy. The government of Bangladesh had also adopted a fiscal expansionary method by increasing government expenditure. This was done in hopes of achieving a moderate inflation rate, reduced unemployment rate and boosted economic growth, where moderate inflation is defined as 4% - 6% (Bangladesh Monetary Policy Statement Team, 2015). On top of that, the monetary easing declined the interest rates by increasing the money supply (Bangladesh Monetary Policy Statement Team, 2015). It has been found previously according to a study that shows inverse relationship between money supply and the interest rates (Yunana et al., 2014). The credit market concerns both the business sector and the household side. The business sector is dependent on the household savings, and the household is dependent on firms for interest payments as extra household income and the financial institutions are dependent on both the parties for interest spread (Fiore & Tristani, 2013; Curley et al., 2009). The interest rate therefore pertains to the price of credit and the household is the supplier and the firms represent the demand side (Ciccarelli et al., 2015). The notion is that savings will decline, while investments are likely to rise; however consumption is more inclined to rise. While corporation are dependent on loans, consumers have two sources from which they can meet their consumption; loans as well as their savings (Pavlikova & Rozboril, 2014). Aggregate Demand from the consumers for products in addition to lower capital cost will encourage the firms to invest more which will also create employment, and in general people will have more money to spend. This idea has been adopted based on Keynesian Theory, which supports consumption driven economic output growth, but it limits the theory towards short to mid-run. The middle-income group is the population chunk that is found to be the driving engine of the economy according to a study (Chun et al., 2016).

1.1. Objectives of this study

This research had been conducted to benefit the relevant policy makers, economic “think tanks” as well as stakeholders such as firms who are likely to be affected by the policy as well as the outcome process.

Main Objective

The main objective of the study had been to focus on the effect of "decreased interest rate" on the "consumption pattern" of the middle-class. The middle-class consumption patterns further reveal other concerns.

1.2. Specific Objectives

- To establish the relation between the new policy and its impact on savings depletion,
- To establish relation between savings depletion and borrowings,
- To identify the "debt motivators" of the middle class,
- To identify side-effects of consumerism culture, and
- To forecast the long term effectiveness of the change in the monetary policy.

2. Literature Review

In order to interpret the findings, the macro-environment in relation to Bangladesh must be put under microscopic view. The economy of a nation is effected by three sets of policies namely the Monetary & Exchange Rate and Fiscal Policy (Silvia and Iqbal, 2011; Dosi et al., 2015; Leith et al., 2015; Cevik et al., 2014; Cebi, 2012). These policies are maneuvered around in response to the economic conditions in play, taking in non-Keynesian effects (Ricci-Risquete & Ramajo, 2015) and distortions (Caprioli, 2015) in to considerations, however there are limitations where the government can't solve inequality (Cabrera et al., 2015) along with the inability to fully stabilize inflation (Sacchi & Salotti, 2015), employment, etc. The exchange rate policy relates to the valuation of the domestic currency in comparison to an index of foreign currencies (Pontines, 2015) and in relation to the interest rate differentials (Linnemann & Schabert, 2015) between the domestic country and other trading countries. The fiscal policy is related to the adjustments on inflation, unemployment rate, balance of trade, debt & spending levels by government and taxation policies (Hollmayr & Matthes, 2015; Plodt & Reicher, 2015; Aguiar & Amador, 2016; Lu, 2015). On the other hand, monetary policies pertain to the manipulation of the level of money supply by the central bank, that has an inverse relationship with the interest rates (affects savings/investments equilibrium), which proportionally contributes to achieving the targeted inflation rate as the excess money supply boosts the prices of goods (Ireland, 2015; Rubio, 2016; Airaudo & Zanna, 2012), open market operations by buying/selling treasury bonds (Kopchak, 2011), changing reserve requirements (Hoffmann & Loffler, 2014), etc. Changing the monetary policies are much more preferred over fiscal policies (Jawadi et al., 2015) as this ensures the economy to be somewhat more insulated from political instabilities (Ueda & Valencia, 2014). Yet, the events that took place in Bangladesh starting early 2015, where both monetary policy as well as fiscal expansionary policy (by increasing government sanctions) had been implemented can be argued to be a politically non-sequestered move, as the fiscal policy expansionary policy might potential be subjected to discontinuation with the shift in regime.

As per Taylor's theory, if the measured inflation rate is above the "targeted inflation rate", the country should implement monetary tightening by increasing the nominal interest rate, but the Bangladesh Bank has done the opposite as Bangladesh's inflation level was 6.4% compared to the target 6.2% (which is still higher than the moderate level) (Bangladesh Monetary Policy Statement Team, 2015). Instead of increasing the interest rates, there was a reduction in interest rates; which is likely to have an impact in inducing the household towards the security markets (Chatziantonious et al., 2013) as borrowing becomes cheaper; historical records show a reduction of 1% interest can contribute to growth of 1.7% (+/- 0.078) in the stock market (Muktadir-al-Mukit, 2012) in Bangladesh. A downside of a higher inflation is that a higher price, which according to price elasticity will mean a lower demand for products by the household sector (Snow & Warren, 2015; Esteves & Reggiani, 2014; Pal et al., 2012), which would in theory initiate investment stagnation by the business sector and will also effectively downsize the economy as the Aggregate Demand (which according to Keynesian Theory also is a measure of the GDP) dependent on both Consumption and Investment (Diacon & Maha, 2015; Urasawa, 2014; Kucukvar et al., 2014; Peretto, 2015). However, contrary to expectations, the new atmosphere has rather harnessed a solid foundation for the consumers to increase borrowings for consumption purposes; where consumption dominates investment desires.

It has arisen due to the fact that the increased inflation has lowered the actual value of money (Lunn & Duffy, 2015) so immediate consumption is likely to be a more logical choice in anticipation of further inflations; coupled with the notion that lower interest levels mean borrowings become cheaper and stimulates a higher affordability of the loans to purchase the desired goods and services, as there are consumer loan schemes which are being offered by the Banks and Non-Bank Financial Institutions (NBFIs) such as Bangladesh Development Bank Ltd., Lanka-Bangla Finance Ltd., Standard Chartered Bank Bangladesh, BRAC Bank, Pubali Bank and many other Banks and Non-Bank Financial Institutions.

Moreover, while investments are made cheaper as a result of lower cost of capital, this also means deposits will yield a lower interest earnings (the phenomena is also known as income-risk); lower lending interest rate means a lower deposit interest as well, because all the banks had been hinted to maintain a spread around 5% by the Bangladesh Bank (Byron, 2015), where spread is the difference between weighted average lending interest (higher) and the weighted average deposit interest rate (lower), and in order to maintain a lower spread, banks also have to lower the deposit rate along with the lending rate. As a result, this will discourage the household sector from saving (Mujeri & Younus, 2009), and they will look for either higher yield investment opportunities (not to be confused with "investments by firms"; investments by household is limited) or for consumption purposes.

The limitation to "investments using personal fund" in any real or financial assets is that they have variable degrees of risk associated with them; in order to reduce the total risk (systematic risks are affected by macro-variables and can't be diversified, but the unsystematic risk can be), investments should be made in a portfolio or "basket" of assets and it should be managed within short intervals (Anyika, 2015; Kiani, 2011; Guidi & Ugur, 2014; Hammoudeh et al., 2014; Raffestin, 2014; Xie & Yang, 2013); however for an individual investor (provided the households choose to invest), it is not only time consuming due to continuous need of monitoring owing to the asset value volatility but it is also costly to maintain a portfolio due to high transaction costs (Novy-Marx, 2016), where examples of such costs are broker commissions, trade insurance, margin fees, after-income taxes, etc. Besides, due to overinvesting, the returns to investment will diminish at one point (Abramov et al, 2015) with the possibilities of mismanaging the portfolio (Guiso & Sodini, 2013; Firth, 2015) by buying assets which should not have been bought (buying an asset in mid-bearish scenario before it even goes near the support) or selling assets which should have been kept (selling an asset in mid-bullish scenario before it even goes near the resistance) (Aspara & Hoffmann, 2015).

The consumption oriented households however have two source of consumption; borrowing funds from banks and spending from their savings (Pavlikova & Rozboril, 2014). Hence in general, the assumption is that the consumption quantity will increase more in comparison to investments when the money is borrowed from banks, which is contradictory to some findings (Karlan et al., 2015; Du, 2014), until the point where the interest rate reaches a new equilibrium. This study will not look deeper into "investment by borrowing" because of economic bubble concerns where investing by borrowing has an artificial growth mechanism known as the "multiplier effect" (Pintus & Wen, 2013). However, the study will look into consumption by borrowing.

Two separate economic approaches (investment-driven vs. consumption driven) followed by two nations that are trading partners (Bonatti & Fracasso, 2013) may benefit both. However, the implications of continual consumption of goods and services, that have been partially or fully made abroad or produced by locally stationed companies that are owned by foreign corporations, may not point to be favorable if marginal increase in imports surpasses the marginal increase in export (Ahmed et al., 2013).

3. Research Design and Technique

3.1. Source of Data and Sample

Data has been collected from reports prepared by the government of Bangladesh as well as the Asian development Bank (ADB), World Bank (WB), International Labour Organization (ILO), World Health Organization (WHO) and Journals Articles from fields of Finance, Economics, Psychology, Operations Management, Accounting, Public Policy and many others. To add on, primary data crucial for testing the hypothesis has been collected via surveying a target sample.

3.2. Methodology, Instrument and Procedure

Cluster Sampling has been used, as the targeted sample is very specific, and hence a degree of selectivity had been required when collecting the data. The people that were targeted belonged to middle-income background (employed at the time of the survey), where Middle-income group is defined as the cluster of population that earn \$4-\$20/day (Chun, 2010) consisting of both lower-middle-class and upper-middle-class; they are educated, as educational attainment provides a gateway to seek employment and earn higher incomes (Koch et al., 2015; Komives & Dajnoki, 2015; Julia et al., 2015, Alzua & Gasparini, 2015; Triventi, 2013; Khan et al., 2013; Yamauchi & Tiongco, 2013) and consequently impacts positively towards the GDP by bringing higher efficiency level to the table (Sanchez & Cicowiez, 2014). The sample had been limited to ages ranging from 21 to 59 (the minimum age till retirement age, mandated by the Bangladesh Public Service Commission, used as a benchmark). The instrument that have been used to collect the primary data is Questionnaire (437 Replications);

however, a combination of (a) face-to-face and (b) online portals have been implemented using the same set of variables. The portion of the sample, from whom data were collected on-site, were situated in the corporate areas such as around Mohakhali (23.780404°N, 90.406483°E), Banani (23.797309°N, 90.406068°E), Gulshan 2 (23.794543°N, 90.415077°E), Dhanmondi (23.756327°N, 90.374519°E) and Baridhara (23.804892°N, 90.417774°E) which are all located in Dhaka (Capital city of Bangladesh), while the data which was collected from online respondents, were made sure to match the same profile; and the findings are linked in this report with the relevant secondary data in order to validate the hypothesis.

3.3. Limitations

The data collection method was limited entirely to Questionnaires, however the addition of Focus Group Discussions (FGD) or Interview Sessions could have allowed the surveyors to make more in-depth analysis of the samples' activity patterns (Acocella, 2012). FGD sessions were not made a possibility due to a combination of (a) limited resources of the site-surveyors and (b) limited free-time availability of the sample (related to selected characteristics of the demography). In addition, due to the large sample size, the data was collected over a period of 4 months, so dynamics of the behavior of the respondents may have been influenced by environmental queues over the period (type I and type II statistical errors). Furthermore, the authors were unable to retrieve any information pertaining to the actual income range and current savings distribution of the sample (due to confidential issues), which otherwise could have helped arranging the sample into subcategories to make even more rigorous study (comparing results amongst the classified subcategories and identifying the dominant mass), which as a result may have affected the ability to reach any indubitable conclusions. Finally, majority of the data collected were behavioral data and hence the relationships established may not be conclusive as the data may have affected by the measuring scales.

3.4. Statistical Tools Used

The main statistical tools used were Descriptive Statistics to describe the percentile standings and Inferential Statistics (using 437 observations) to make assumptions of the population that the targeted sample represents.

4. Results and Discussions

4.1. In favor of the policy

It has been found that while up to 48% of the sample viewed the situation as a progressive shock; on contrast, only half the portion found it unfavorable. Indeed, a lower nominal interest rate is unfavorable as it means lower interest incomes as the financial intermediaries have to keep on maintaining a spread (Fiore & Tristani, 2013; Curley et al., 2009). However, a majority in favor of lower bank rates depicts a consumer-mindset rather than being investment oriented. A deeper analysis puts forward that while 34% of the sample believed that the changes made is to induce investment, which is in sync with some studies (Muktadir-al-Mukit, 2012; Barua et al., 2010), on the other hand, 39% of the sample also believed it was to boost consumerism (higher than expectations on investments) which can also be supported (Pavlikova & Rozboril, 2014). Surprisingly, inflation made a very insignificant impact on making any decision. Consequently, as much as 34% believed the most affected class would be the business group. But a staggering 55% believed that most affected class is rather the middle-class consumers. Indeed informed customers tend to dominate the economy (Syal & Goswami, 2012), and as much as 54% in fact supported the Bangladesh Bank's action.

Using measurement scales, it has been identified that more than half supported the notion that the national savings level will go down, while four-fifth of the sample hinted that consumption will rise. In addition, two-thirds of the sample went on to point out that there will be an influx of the varieties of goods and services due to the high level of economic activities that are expect to follow which up to 88% of the respondents believed.

The influx is very logical to occur due to multiple factors; (a) high demand and interaction from the customer's side (Ryzhkova, 2015; Laage-Hellman et al, 2014; Tsai, 2009; Block et al., 2016; Ye & Mukhopadhyay, 2013; Voss, 2012; Majava et al., 2014) can compel micro-finance supported local entrepreneurs (with help of NGOs), international franchises/brands, or product importing companies, or domestic product development companies to make the goods with desired features available in the Bangladesh market, (b) improved operations & supply chain management systems (Sun et al., 2010; Annique Un et al., 2010; HSU et al., 2009; Yang, 2014; Prajogo et al., 2012; Wagner et al., 2014) which is related to the timely need identification and effective delivery and availability of the products in the market, (c) as discussed earlier, investments from firms are also going to grow which will lead to greater capital injection in R&D for locally produced items due to market pressure and survival motivations (Triguero & Corcoles, 2013; Bogliacino & Pianta, 2013; Kim & Kim, 2015; Howell, 2015; Savrul & Incekara, 2015; Babkin et al., 2015; Choi et al., 2016; Cassiman et al, 2009; Wang et al., 2010; Karabulut, 2015; Yildiz et al., 2013); examples of local manufacturers are Walton Bangladesh, InGen, and others and according to the Daily Star News (Star Business Report, 2015) the Bangladesh Government has also come into an agreement with Bangladesh TechnoSity Ltd. to create a hi-tech park in Gazipur (24.061279°N, 90.228568°E) that will also lead to economic growth due to job creation and more space (market) & money for consumers to spend and (d) Shortened Product Life Cycle of durable goods mean products with similar specifications require to be launched before the trend is phased out or the competitors take out the market share or duplicate the technology (Seifert et al., 2016; Su & Rao, 2011; Kivi et al., 2012; Tolonen et al., 2015; Tongur & Engwall, 2014; Liao & Seifert, 2015; Laksana & Hartman, 2010; Riikonen et al., 2016) and hence compete in the same time horizon with their own differentiating factors (Dawid et al., 2015; Wan et al., 2015) due to the R&D that creates a monopolistic competition environment with addition of self-cannibalizing product lines that compete on price, model and specifications (Wang & Hui, 2012; Abbey et al., 2015).

The surveys done for this study, further illustrates that optimism about the economy is brewing among the citizens as up to 76% believed that there will be a growth in the GDP. However, increased imports may actually dampen the GDP growth's prospects by reducing net exports (Ahmed et al., 2013).

4.2. Savings and Loans leading to Consumption

4.2.1. Withdrawal of Savings

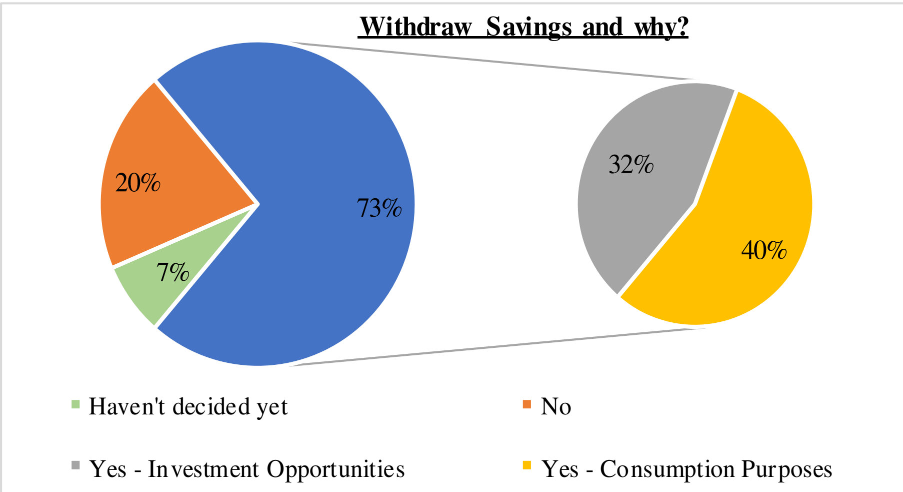

Figure 1: Willingness and reason to withdraw savings.

Figure 1, demonstrates that as much as three-quarters are planning to withdraw some of their expandable savings, and out of these, 44% (representing 32% of the entire sample) wished to withdraw it for further investments while the majority 56% (representing 40% of the entire sample) desired it for consumption purposes.

4.2.2. Consumption

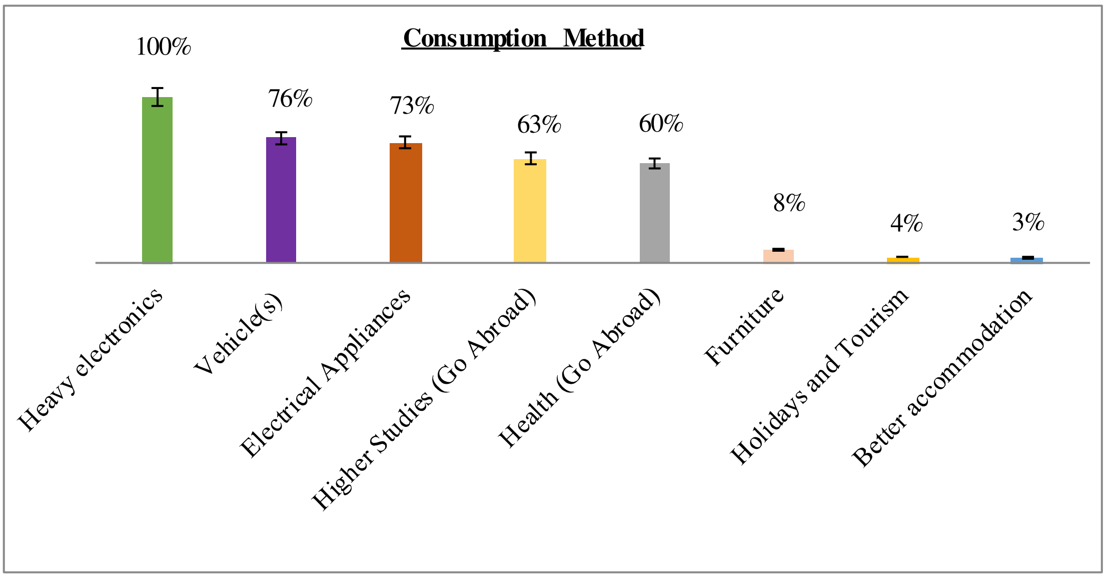

Figure 2: Desired Method of Consumption of Savings (+/- 5% error)

Figure 2 shows that all the respondents had one item common; they all wanted to buy heavy duty electronics; examples of such items are Air Conditioners, Refrigerators, washing machines, dry cleaners, etc. Almost three-quarters also wanted to purchase vehicles and electrical "appliances"; examples of electrical appliances are microwave, water heater, grinder/blender, vacuum cleaner, fan, food processor, etc. Such a huge portion of people wanting to buy electrical appliances suggest that these people have just entered into the work force and newly settling in, or they already possess the items but are planning to replace them with the updated features. Moreover, such a big cluster wanting to purchase vehicle(s) may influence car importers to increase their car shipments in the country; this can also be alarming for the policy makers as influx of vehicles may affect traffic and safety issues. In fact, similar studies have already been done in the past (Ahmed, 2013; Chisholm & Naci, 2009).

In addition, almost two-thirds wanted to go abroad for either higher studies or health reasons, and for these purposes, it is quite a substantial amount. Policy makers should also take a note, as this shows that the country is lacking in terms of good environmental factors for education, such as existence of session jam problems, political unrest and strikes, safety issues, seat quota, etc. and according to the BRAC learning division in Bangladesh, Qualification of the Educators and Education System itself is lagging behind in many aspects (Salahuddin, 2014); which are driving the students to take the decisions to go study abroad rather than pursuing higher studies domestically leading to the "brain drain" phenomenon; this benefits the other countries as enormous amount of domestic wealth, and not to mention human capital, is transferred to the foreign nations. However, a study has shown that the Private Universities in Bangladesh are surging in capacity and taking upon themselves the responsibility to develop the pool of educated graduates; the educators themselves come from rich backgrounds of industry-based experience and research. A prominent example is American International University – Bangladesh (AIUB) that develops its own curriculums which is not only of high caliber but is also receptive to the demand from the current labor market (Hossain et al., 2014); it is also accredited by foreign education bodies such as PAASCU and IAB. However, it is barely enough to retain the students in the domestic education institutes. Policy makers should also take note that the medical health advancement should also be heavily invested upon; due to both lack of quality as well as quantity, people are driven to seeking medical treatment abroad which also is responsible for the nation's wealth being transmitted to other countries, as the travelers carry the nation's wealth with them or transfer/wire the amount (although, limitations have been placed on the amount that can be transferred or carried in a given time or condition by an individual) and spend it abroad (Islam & Jhora, 2012; Rahman, 2016; Mamun & Andaleeb, 2013; Helble, 2010; Khatun & Ahamad, 2012; Ali, 2012). Another reason for the lack of medical treatment available in the country is the "Brain Drain" that has been mentioned earlier (Mackey & Laing, 2012), which adds more pressure to the policy makers of Bangladesh to adopt world class medical systems. In both cases, this is a concern for the government as massive foreign remittance outflow tends to depreciate the domestic currency value which counter-balances the initial stable inflation that the government would have initially like to attain as suggested by a similar study (Termos et al., 2013); it also has an adverse effect on the domestic economy (Alkhathlan, 2013) due to the loss of "wealth of the nation" through capital flight (Brada et al., 2013). The capital flight is a plausible outcome, as there is rising demand to obtain the foreign services mentioned above, and although restrictions have been placed (despite having a free-floating capital mechanism in the country, it is more applicable for corporate), the public may resort to unethical practices such as misusing the "hundi/hawala" financial system, which works as shadow remittance (works for both inflow and outflow) alternative that is operated by financial agents rather than banks, and thus the actual fund transfer of an individual is not reported to the government (Martin, 2009; Kosse & Vermeulen, 2014; Picard & Pieretti, 2011); these said agents may even go as far as to quote more lucrative spot rates rather than what is being offered in the open market, and thus distorting not only the exchange rate market, but also cutting off relevant information from the government or the central bank.

All this ties back to the initial drop in interest rate that ultimately is likely to push the value of the currency downwards which supports a few studies (Hnatkovska et al., 2013; Ravn et al., 2012), provided the new policy is short-term with government expansionary fiscal policy (also contributes to depreciation) at work. Although some studies suggest, that "Brain Drain" may actually benefit the nation in the long run (Okoye, 2015) with the development of human capital, it is a speculation on returning of the individuals who go abroad to study; however, non-residential Bangladeshis can impact positively by sending foreign remittance back to the country which accounts to a significant portion of the GDP (Chowdhury, 2011). While it can be argued, that a depreciated local-currency is good for the balance of payment as it will mean exports are made cheaper while imports are made expensive, however, since the Aggregate Demand is dependent on consumption and investment, if imports are made expensive, this will discourage not only the consumers, but it will also discourage foreign direct investments in the country (Lily, 2014) and as a result intervention is required to push the value of domestic currency upward (back to the acceptable band).

4.2.3. Consumer Debt Motivators

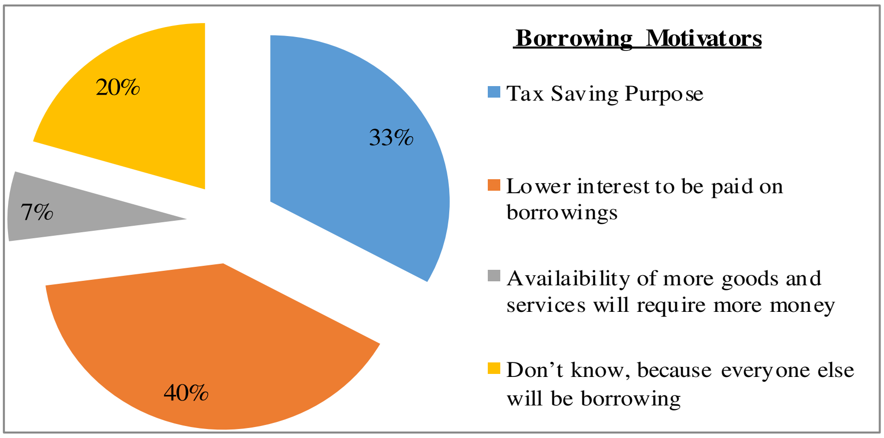

Figure 3: Elements behind consumer loans

Not too strikingly, out of the people that wanted to withdraw their savings, "only" one-fifth (representing 9% of the entire sample) claimed they might be able to afford their desired consumer items based solely on their savings (due to employment length differentials and acquired wealth) while a staggering 78% (representing almost a third of the sample) declared they wouldn't be able to afford their consumer item only based on their savings. Out of those that had "inadequate savings", 86% (representing 27% of the entire sample) of them were willing to take actions by taking consumer loans while the rest proved to be passive. The passivity is caused because of the "bottom dollar effect" (Soster et al., 2014) that brings diminishing utility after the point where the last reserved dollar has been spent and loan means negative wealth which discourages them to borrow.

From the survey, it has been determined that, the main motivator, (according to almost two-fifths) of the potential borrowers (representing 11% of the entire sample) was that lower interest amounts have to be paid on borrowings. However, it is worth noting that as much as one-fifth of the borrowers (representing 5% of the entire sample) felt like borrowing only because their peers, acquaintances and relatives were planning to borrow as well. This however poises serious threat even if this category of people is of miniscule quantity, because this shows a combination of (1) biological-level anomalies caused by debt-prone genes (Neve & Fowler, 2014) (2) lack of thoughtfulness of the consequences of the loan or lack of financial literacy which otherwise could have been prevented with training (Antonides et al., 2011; Brennan et al., 2011) and (3) inherent character, lack of control or impulsivity (Gathergood, 2012; Gathergood & Weber, 2014; Ottaviani & Vandone, 2011; Miotto & Parente, 2015) that eventually leads to irresponsible debt behavior. Therefore, this is crucial for financial institutions and banks to make improvements on assessment systems before granting any consumer loans so as to avoid defaults, credit risks or interest risks.

It is also alarming that as much as one-third of the potential borrowers' (representing 9% of the entire sample) motive is related to tax-shielding. Similar practices are also being done in other nations according to a study (Sikka, 2015). Such behavior is attributed to individualistic behavior leading to private wealth accumulation or increased private consumptions due to status concerns (Celimene et al., 2016; Goerke, 2013; Alm & Finlay, 2013) which is however bad for the government and the nation. This will result in less government revenues which in turn will put strain on the government's ability to carry on with its marginal expenditures, and as a result, this will limit the continuation of the fiscal expansionary policy. This will also affect the long-term employment rate and economic growth (Busato et al., 2012) of Bangladesh.

4.3. Long-Term Dynamics

Half of the sample also revealed that they believe the policy is just a short term measure that is implemented by the authorities and up to almost two-thirds also believed that the market will correct itself. This likelihood is also supported by the "impossible-trinity" phenomenon. According to a couple of studies (Aizenman et al., 2010; Aizenman & Ito, 2014), a country can at best case scenario attain only two of the following: (a) Exchange Rate Stability (b) Free Capital Flow and (c) Fixed Interest Rate. Bangladesh historically had been maintaining a stable exchange rate with managed floating mechanism (Bangladesh Monetary Policy Statement Team, 2015) and statistics show the country over the year has become profoundly trade dependent (International Labour Organization, 2013; Centre for Research and Information-Bangladesh, 2014; Oh & Sardar, 2013) over the years. In order to maintain trade and growth, free capital flow is essential (with certain regulations). Bangladesh has been maintaining free capital flow for more than two decades (Islam et al., 2014). As it can be seen, Bangladesh has already achieved two out of the three elements from the impossible trinity, therefore trying to achieve controlled interest rate will not work.

It is due to monetary policy, the money supply has increased coupled with the higher demand for foreign currency for obtaining foreign goods and services (education, tourism, health, etc.) which depreciates the domestic currency. It has already been established that Bangladesh uses the managed floating mechanism and therefore when the domestic currency depreciates below a certain level, exchange rate intervention is required (by buying back the local currency from the market by depleting the foreign reserves) which stabilizes the exchange rate, however in the process the money supply falls (people pay for the foreign currencies with Bangladeshi Taka and BDT goes out of circulation) which had increased in the first place because of the monetary policy. The money supply in circulation returning to previous level, while the continuing fiscal expansionary policies (as mentioned at the beginning), will lead the government to compete for loans (in order to finance the fiscal spending without increased Taxation) with the firms (who want to invest in their business) and the household sector (who wants to borrow and consume), and hence there will be less credit available in the market due to the "crowd out effect" (Wilson, 2013), and thus the interest rates will be pushed upwards, which will discourage private investments and encourage households savings. Ultimately, prospects for the current monetary policy seems to be futile.

Table 1: Relationship among certain events.

Relationship between	**Correlation Coefficient**	**Relationship**	**Extent**
Declined Savings & Spending Desire.	98.85%-99.39%	Positive	Almost perfect
Declined Savings & Investment Desire	96.68% to 98.22%	Positive	Almost perfect
Consumerism & Economic Optimism	72.29% to 84.25%	Positive	Strong

From the respondents, certain data had been tabulated in Table 1 above. It can be said with $p > 0.001$ significance level, that the there is an almost perfect connection between the savings withdrawal action and the desire to either consume or invest by the household. It can also be deduced that money holding is not a predominant choice as it poises risk of theft (Choi, 2013) or opportunity loss (Rouhani et al., 2013). There exists a slightly more inclination toward consumption desires rather than investing (by household). It contradicts a couple of studies (Karlan et al., 2015; Du, 2014). To add on, the increase in private consumption is strongly related to the Economic Optimism in the population.

4. Conclusion

Data suggests that both fiscal expansionary policy and monetary expansionary policy has been applied in hopes of attaining economic growth. Fiscal expansion had been administered by increasing government spending; this led to job creation as well as slightly above mild inflation. Monetary expansion had been implemented by increasing the money supply which lowered the interest rates, leading to a possibilities of decline in bank savings. Withdrawal of savings lead to household desire for consumption as well as investment. There is a limit to household investment as at one point due to diminishing returns, so they ultimately choose to consume. Consumers have two sources of fulfilling their desires. One way is to deplete their savings, and the other way is to take consumer loans which are being offered by various banks and non-bank financial institutions. The policy shift also gives rise to corporate borrowing which makes way for more investment, which coupled with other factors will lead to triggering the market to be flooded with goods and services (also in response to other elements). Due to this boom, economic growth is expected to be achieved. The main group of people to be affected by the change was the middle-class.

Indeed the study shows the likelihood of achieving a boom, however various problems have also been discovered such as tendency of impulsive indebtedness, tax aviation and capital flight. Moreover, due to the impossible trinity phenomenon, the monetary expansion will prove to be ineffective in the long run; decreased savings and over-consumption will lead to demand for not only local but also foreign goods & services, and as a result Bangladeshis will keep selling Bangladeshi Taka to acquire foreign Currencies which will drive down the value of BDT and for maintaining the value of BDT within the acceptable band, the government will eventually have to deplete its foreign reserves, reducing the local currency supply (money) and push back the interest rate upward which will limit any further investments as cost of capital again rises. Furthermore, the cluster of actual consumer that are willing to borrow to finance their consumption is lesser than those who wants to invest (household) because of the bottom dollar effect which is supported by some studies. This article is beneficial for the various Ministries and the Government of Bangladesh, the Bangladesh Bank and corporate investors studying consumer behavior pattern.

The recommendation is to expand the study in the other commercially concentrated cities in Bangladesh like Sylhet, Chittagong, Rajshahi, Khulna, etc. More concrete psychological data can be recorded with the help of Focused Group Discussion, as well as by using questionnaires with more quantitative variables, such as monetary value range on level of consumption, current savings and classifying the respondents into more sub-age and sub-income clusters (so that comparisons can be made amongst the cluster in order to identify the most prevailing pack). The study can be expanded by surveying for household stock investment patterns which can also benefit the Security Exchange Commission (SEC) of Bangladesh. To overcome the time-lag factor, instead of individual data collection, rather a network of surveyors can be used, all of which will require vast resource allocation.

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