

ABSTRACT

A Study of the Quantum and Determinants of Savings
in the Post-War Trinidad and Tobago Economy

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The main objective of this research study is to investigate the behaviour of savings in Trinidad and Tobago during the post-war period with a focus on the measurement and determinants of savings under different economic conditions. It carries out a comparative analysis of the causes of variations in the savings rate during the pre-boom, the boom, and the post-boom periods through an econometric investigation.

To examine the causal relationships between savings and income and savings and interest rate, the Granger direct test is employed. Some of the conventional hypotheses of savings are tested with a view of ascertaining their relevance to Trinidad and Tobago, together with tests undertaken to examine some other factors hypothesized to affect savings.

The empirical estimates show that there is evidence of feedback between savings and income; however, the direction of causality is mainly from savings to income

contrary to the theoretical expectations. The results also indicate that there is evidence of unidirectional causality running from interest rate to savings.

The household savings functions estimated based on the Household Budgetary Survey data suggest that the quadratic model is the most appropriate functional form for household savings in Trinidad and Tobago. Testing of some of the conventional hypotheses of savings indicates that the Keynesian absolute income model and the permanent income model of savings fit reasonably well. The examination of interest rate responsiveness of savings with the aid of the McKinnon-Shaw model suggests that the rate of interest does not exert a positive influence on the savings rate. The empirical results reveal that savings is mainly determined by income. The other factors which appear to affect savings are: the dependency rate, foreign savings, foreign capital inflows, and exports.