Aging Population = Aging economy?

How aging population affect economy in Hong Kong?

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Background

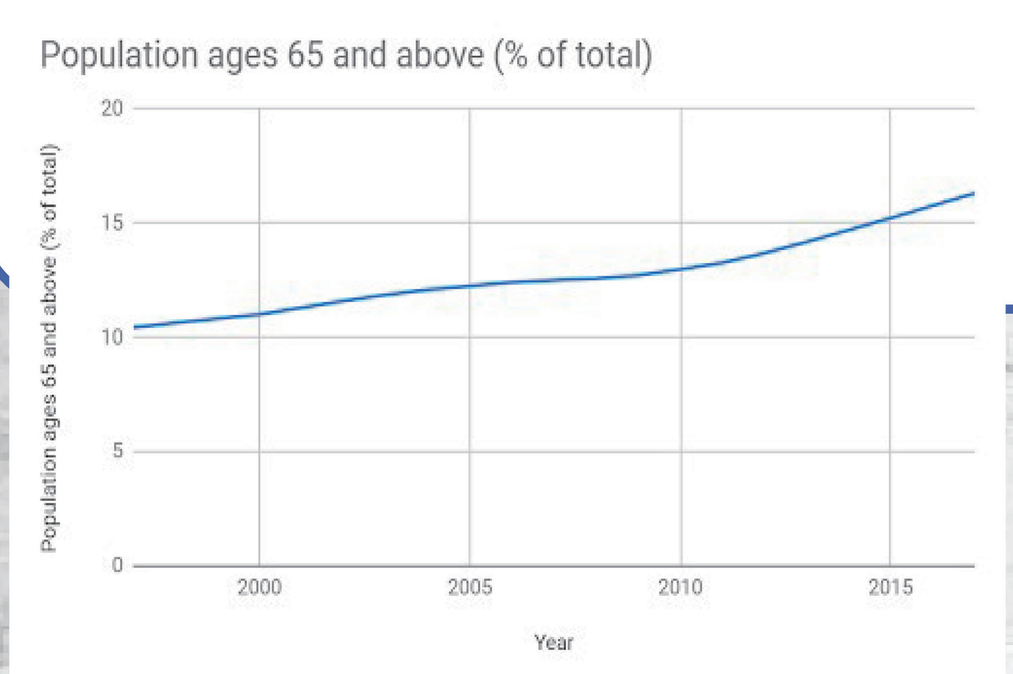
The proportion of those aged 65 and over is projected to rise markedly from 11.7% in 2003 to 27% in 2033.

Interpretation

From simple macroeconomic model, Y=C+I+G+NX
Government expenditure rise due to medical expense
Consumption and investment drop due to taxation and purchasing bond, which give rise to a crowding out effect

Model

Multiple linear regression formula: $\ln(y) = \beta_0 + \beta_1 \ln(x_1) + \beta_2 \ln(x_2) + \ldots + \beta_p \ln(x_p) + \varepsilon$
where x_i and y represent p independent variables and dependent variable, respectively



ln(real GDP per capita growth rate) = -78.11-2.26ln(tertiary schooling%)
+2.16 ln(old age%)
-0.34ln(unemployment rate)
+10.48 ln(total population)+ε

Assumptions

1. The independent variables do not affect each other.
2. Economic factors that cannot be measured by GDP (e.g. illegal transactions, change in price level) do not affect Hong Kong's economy

Discussion

Q:Why Hong Kong's real gdp growth rate increases with elderly percentage?
A:According to life cycle hypothesis, as elderly have accumulated capital for a longer time, they have a stronger purchasing power for private consumption in this stage of life.

Limitation

Real GDP can not take account into the value of all transaction.

Suggestion

1. Extending the retirement age
2. Encouraging people to have more children
3. Turning elderly a burden to a benefit to the society

Predicted Outcome

1. Ageing population is taking an important role in affecting Hong Kong economy
2. Ageing population is negative related to Hong Kong Economic performance