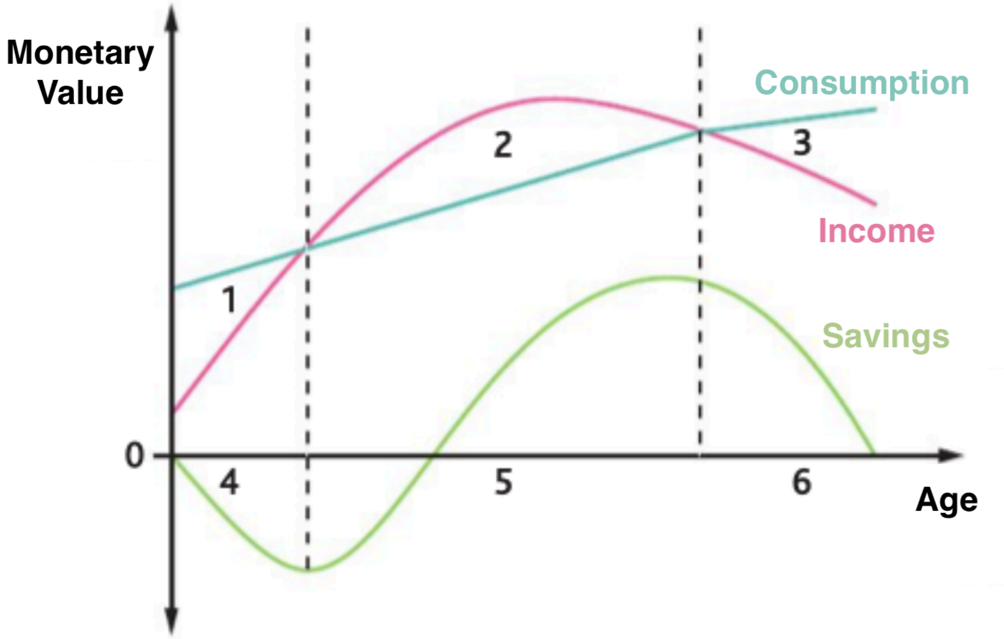
The Life-Cycle Theory



The life cycle theory was developed in 1954 by Franco Modigliani. It allows to describe the savings behaviour of an individual according to their age. The life cycle is divided into three phases:

Youth: Weak income, growing consumption. Negative savings because the individual is getting into debt to pay for their studies or equipping their domicile.

Activity: Positive savings because income increases with better integration into the labor market. The individual can thus build a heritage.

Retirement: Revenues decrease due to the end of active life. To maintain the level of consumption, the person draws from their savings.

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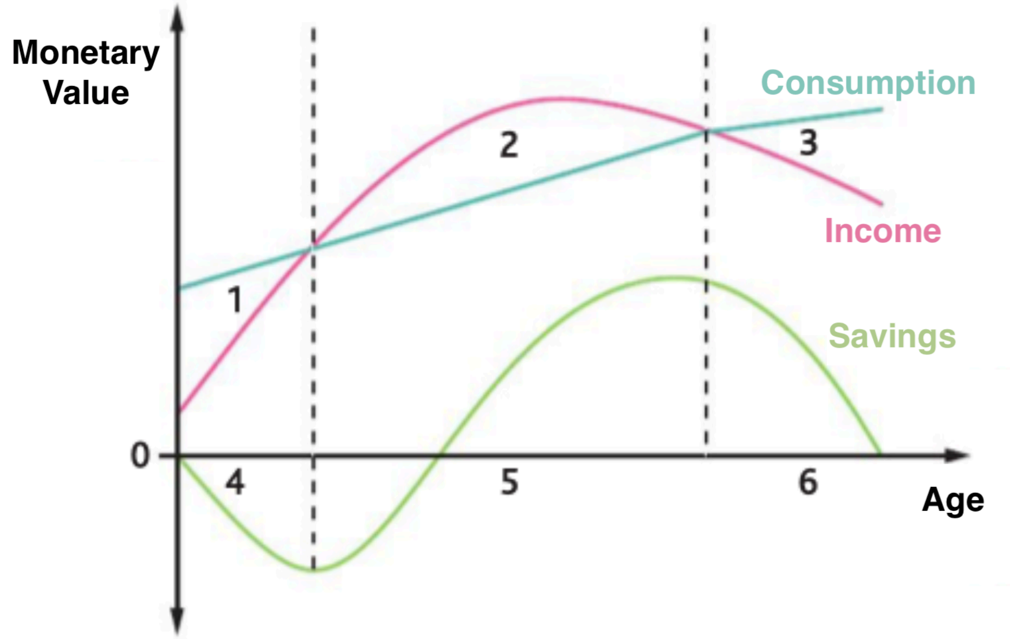

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