

T.R.
ISTANBUL SABAHATTIN ZAIM UNIVERSITY
GRADUATE EDUCATION INSTITUTE
DEPARTMENT OF BUSINESS ADMINISTRATION

**POLITICAL INSTABILITY AND CONSUMER
BEHAVIOR: A COMPARATIVE STUDY OF TURKISH
AND BANGLADESHI MARKETS**

MA THESIS

Abu TAHER

Istanbul

July, 2025

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Supervisor

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This study has been approved in partial fulfillment of the requirements for MA Degree
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DECLARATION OF SCIENTIFIC ETHICS AND ORIGINALITY

This is to certify that this MA dissertation titled “Political Instability and Consumer Behavior: A Comparative Study of Turkish and Bangladeshi Markets” is my own work and I have acted according to scientific ethics and academic rules while producing it. I have collected and used all information and data according to scientific ethics and guidelines on thesis writing of Istanbul Sabahattin Zaim University. I have fully referenced, in both the text and bibliography, all direct and indirect quotations and all sources I have used in this work.



Abu TAHER

Istanbul, July 2025

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ABSTRACT

POLITICAL INSTABILITY AND CONSUMER BEHAVIOR: A COMPARATIVE STUDY OF TURKISH AND BANGLADESHI MARKETS

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During the Industrial Revolution, classical management theories largely concentrated on production, emphasizing internal organizational elements such as labor, capital, and operational efficiency. Household consumption patterns were shaped by the growth of local mass production, where income levels and domestically produced goods played a central role in determining consumer behavior. However, the postmodern era, fueled by globalization and rapid technological development, led to a significant transformation in managerial thinking. Focus shifted toward the importance of consumers and stakeholders within the production and consumption process. As industrialization progressed and international trade liberalized, consumer access to a wide variety of goods expanded, leading to a reconfiguration of traditional consumption patterns. Modern management approaches now consider not only economic factors but also psychological, cultural, and environmental dimensions. Additionally, political environments and government interventions have become critical in influencing market access and pricing structures, making consumer behavior increasingly complex and multifaceted.

The primary objective of this study is to examine the extent to which political stability affects consumer behavior, particularly consumption patterns, within the contexts of Türkiye and Bangladesh. A quantitative approach is employed using secondary data from the World Bank, The Global Economy, and national statistical agencies. Statistical analysis is conducted using SPSS and SmartPLS 4.

The results reveal distinct dynamics in each national context. For Türkiye, GDP per capita is the strongest determinant (significant at 95% confidence level) of both

expenditure and savings, showing that rising incomes directly shape household financial behavior. Government Effectiveness also has a significant impact, reflecting the role of governance in consumer expectations and policy credibility. By contrast, the Current Account Balance and Political Stability show no significant effects, while Unemployment exerts a modest influence, reducing expenditure but encouraging precautionary savings. The models explain expenditure and savings strongly, while consumer confidence shows only moderate fit, highlighting the role of additional factors such as inflation, exchange rate volatility, and geopolitical risks.

In context of Bangladesh, GDP per capita similarly emerges as the key driver of both expenditure and savings, confirming the central role of income growth. Other factors, including the Current Account Balance, Government Effectiveness, Political Stability, and Unemployment, are statistically insignificant, suggesting limited direct influence on consumer behavior. Confidence shows weaker model fit, indicating that sentiment is more strongly shaped by inflation, exchange rates, and employment expectations.

Overall, the findings show that in both Türkiye and Bangladesh, income growth is the dominant force shaping consumer behavior. Effective governance and employment stability matter in Türkiye, while in Bangladesh, institutional and political factors remain secondary, with inclusive growth policies most critical for strengthening demand, savings, and confidence.

Although selected macroeconomic and political variables exert notable influence on consumption patterns, they are insufficient in fully capturing the determinants of consumer confidence in both Türkiye and Bangladesh. The limited explanatory power of the models suggests that these variables alone cannot account for the complexity of consumer behavior within increasingly integrated and dynamic market environments. This highlights the need to incorporate additional factors, such as expected inflation, income stability, institutional trust, media influence, and psychological dimensions, into considerations. A more comprehensive and multidimensional analytical framework is essential for achieving a deeper and more accurate understanding of consumer decision-making processes amid political and economic uncertainties.

Keywords: Political stability, Government Effectiveness, Consumer Expenditure, Consumer Confidence, Gross Domestic Product, Unemployment, Account Balance

ÖZET

SİYASİ İSTİKRARSIZLIK VE TÜKETİCİ DAVRANIŞLARI: TÜRKİYE VE BANGLADEŞ PİYASASI ÜZERİNDE KARŞILAŞTIRMALI BİR ÇALIŞMA

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Sanayi Devrimi sırasında ve sonrasında klasik yönetim teorileri, üretime odaklanarak emek, sermaye ve operasyonel verimlilik gibi iç faktörleri ön plana çıkarmıştır. Bu dönemde hane halkı tüketimi, gelir düzeyleri ve yerli mallara erişimle şekillenmiştir. Ancak küreselleşme ve teknolojik gelişmelerle gelen postmodern dönemde, yönetim anlayışı değişmiş; tüketici ve paydaşların rolü öne çıkmıştır. Artan sanayileşme ve ticaret serbestliği, ürün çeşitliliğini artırarak geleneksel tüketim kalıplarını dönüştürmüştür. Günümüzde modern yönetim yaklaşımları yalnızca ekonomik faktörleri değil, aynı zamanda psikolojik, kültürel ve çevresel boyutları da dikkate almaktadır. Ayrıca, siyasi ortamlar ve devlet müdahaleleri de piyasa erişimini ve fiyatlandırma mekanizmalarını etkileyen kritik unsurlar haline gelmiş, böylece tüketici davranışlarını giderek daha karmaşık ve çok boyutlu bir hale getirmiştir.

Bu çalışmanın temel amacı, siyasi istikrarın tüketici davranışı üzerindeki etkisini, özellikle satın alma kalıpları bağlamında Türkiye ve Bangladeş örnekleri üzerinden incelemektir. Farklı siyasi ortamlarda tüketicilerin nasıl tepki verdikleri ve siyasi ile makroekonomik değişkenlerin harcama, tasarruf ve tüketici güveni üzerindeki etkileri araştırılmaktadır. Araştırmada nicel bir yaklaşım benimsenmiş; Dünya Bankası, The Global Economy ve TÜİK vb. ile elde edilen ikincil veriler kullanılmıştır. İstatistiksel analizler SPSS ve SMARTPLS4 programları aracılığıyla gerçekleştirilmiştir.

Sonuçlar, her iki ülke bağlamında farklı dinamikler ortaya koymaktadır. Türkiye için kişi başına düşen GSYİH, hem harcama hem de tasarrufun en güçlü belirleyicisi olup (%95 güven aralığında anlamlı), artan gelirlerin hanehalkı finansal davranışlarını doğrudan şekillendirdiğini göstermektedir. Hükümet Etkinliği de tüketici beklentileri

ve politika güvenilirliđi üzerinden önemli bir etkiye sahiptir. Buna karşılık, Cari İşlemler Dengesi ve Siyasal İstikrar anlamlı bir etki göstermemektedir. İşsizlik ise harcamaları azaltırken ihtiyati tasarrufları artırarak sınırlı ancak anlamlı bir rol oynamaktadır. Modeller, harcama ve tasarrufları güçlü bir şekilde açıklarken, tüketici güveninde sadece orta düzeyde uyum göstermekte; bu da enflasyon, döviz kuru oynaklığı ve jeopolitik riskler gibi ek faktörlerin rolünü vurgulamaktadır.

Bangladeş bağlamında da kişi başına düşen GSYİH, hem harcama hem de tasarrufun temel belirleyicisi olarak öne çıkmakta ve gelir artışının merkezi rolünü doğrulamaktadır. Cari İşlemler Dengesi, Hükümet Etkinliđi, Siyasal İstikrar ve İşsizlik gibi diđer faktörler ise istatistiksel olarak anlamlı değildir; bu da tüketici davranışları üzerinde sınırlı doğrudan etkiye işaret etmektedir. Tüketici güveni ise daha zayıf bir model uyumu göstermekte; bunun, enflasyon, döviz kurları ve istihdam beklentileri gibi unsurlardan daha fazla etkilendiđini göstermektedir.

Genel olarak bulgular, hem Türkiye hem de Bangladeş'te gelir artışının tüketici davranışlarını şekillendiren baskın güç olduđunu ortaya koymaktadır. Türkiye'de etkin yönetim ve istihdam istikrarı önem taşıırken, Bangladeş'te kurumsal ve siyasi faktörler ikincil konumda kalmakta; kapsayıcı büyüme politikaları talep, tasarruf ve güveni güçlendirmede kritik rol oynamaktadır.

Sonuç olarak, analiz edilen makroekonomik ve siyasi deđişkenler tüketici harcama ve tasarruf davranışlarını şekillendirmede anlamlı etkiler ortaya koysa da, tüketici güveninin belirleyicileri açısından yetersiz kalmaktadır. Modelin sınırlı açıklayıcılığı, bu deđişkenlerin, giderek daha fazla bütünleşen ve dinamikleşen piyasa ortamlarında tüketici davranışını tam olarak açıklamakta yetersiz olduđunu ortaya koymaktadır. Bu nedenle, gelecekte yapılacak araştırmalarda enflasyon beklentileri, gelir güvencesi, kurumsal güven, medya etkisi ve psikolojik faktörler gibi ilave deđişkenlerin dâhil edilmesi gerekmektedir. Politik ve ekonomik belirsizlikler altında tüketici karar süreçlerini daha derinlemesine ve doğru biçimde analiz edebilmek için daha kapsamlı ve çok boyutlu bir çerçeveye ihtiyaç duyulmaktadır.

Anahtar Kelimeler: Siyasal İstikrar, Hükümetin Etkinliđi, Tüketici Harcamaları, Tüketici Güveni, Gayri Safi Yurtiçi Hâsıla (GSYH), İşsizlik, Cari Denge

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LIST OF ABBREVIATIONS

| | |
|------|---|
| FDI | – Foreign Direct Investment |
| PI | – Political Instability |
| USA | – United States of America |
| UK | – United Kingdom |
| GDP | – Gross Domestic Products |
| CC | – Consumer Confidence |
| CB | – Consumer Behavior |
| OECD | – Organization for Economic Co-operation and Development |
| TUIK | – Turkish Statistical Institute (Türkiye İstatistik Kurumu) |
| MENA | – Middle East and North Africa |
| USSR | – The Union of Soviet Socialist Republics |
| VIF | – Variance Inflation Factor |
| PC | – Per Capita |

CHAPTER I

INTRODUCTION

In recent decades, political dynamics have increasingly influenced economic behaviors across nations, shaping the patterns of household consumption, saving tendencies, and overall consumer confidence. Political stability—characterized by effective governance, policy transparency, and institutional integrity—plays a critical role in fostering an environment where consumers feel confident in making financial decisions. Conversely, political instability, marked by unforeseeable events such as cabinet reshuffles, civil unrest, trade sanctions, or wars, often generates economic uncertainty that directly impacts consumers' current spending patterns and perceptions of future financial security (Ari & Veiga, 2011).

From a behavioral economics standpoint, consumers are not merely influenced by present income levels but also by expectations about future economic conditions, job security, and regional and national government policies (Carroll, Fuhrer, & Wilcox, 1994). In times of political uncertainty, households may react by curbing discretionary spending, prioritizing essential needs, and increasing savings as a precautionary measure (Bachmann, Elstner, & Sims, 2013). For instance, the 9/11 terrorist attacks significantly disrupted the U.S. economy, causing dramatic shifts in consumer sentiment, rising unemployment, and a steep decline in industries such as tourism and finance (Kosová & Enz, 2012). Similarly, the Russia-Ukraine conflict has triggered global inflation by elevating energy and commodity prices, which has negatively affected consumer purchasing power worldwide (Mbah & Wasum, 2022); (Khudaykulova, Yuanqiong, & Khudaykulov, 2022).

In emerging economies such as Türkiye and Bangladesh, political developments—be it elections, protests, or international policy shifts—often create economic volatility that affects domestic consumption. These effects are amplified in democracies where consumer sentiment is sensitive to government transitions and policy unpredictability (Uzun & Deniz, 2010). Additionally, cross-border political developments, such as U.S. sanctions on Iran or geopolitical tensions in the Middle East, have shown how international political actions can disrupt local economies and diminish consumer confidence by eroding employment prospects and increasing inflation (Hejazi & Emamgholipour, 2020).

While scholars have thoroughly explored the relationship between political instability and macroeconomic indicators such as GDP growth, foreign investment, and stock market performance (Ari & Veiga, 2011), (Jiun, 2018), relatively fewer studies have addressed how these political uncertainties manifest in consumer behavior at the microeconomic level. In particular, research that systematically connects political dynamics with consumer expenditure, saving habits, and sentiment remains limited. Given the interdependence of global markets and the heightened role of governance in shaping economic landscapes, understanding this intersection has become increasingly pertinent.

This study seeks to bridge that gap by exploring how political instability, government effectiveness, and several macroeconomic indicators influence consumer behavior in Türkiye and Bangladesh. By examining the impact of political and economic variables on consumption, saving, and confidence, this research aims to contribute to the growing body of literature at the intersection of political science, behavioral economics, and marketing. The findings are expected to benefit not only academics or researchers but also marketers, financial institutions, and in a broad sense, national or regional policy-makers in navigating and responding to the behavioral patterns of consumers under certain political environment.

1.1. The Statement of the Problem

We are living in a society where political stability and consumer behavior are intertwined. Any form of changes in political environment, such as cabinet change, government inefficiency, civil unrest, national or international regulatory policy, tariff policy, sanctions & embargoes, and so forth, may immediately be reflected in individuals' purchasing decisions, in the long run, impacting the overall consumers' behavior and ultimately, their confidence. Uncertainty regarding the general economy, job security, or income instability often leads consumers to reduce discretionary spending, prioritize essential purchases, and save for future expenses rather than spend instantly. For instance, following the terrorist attack of 9/11, the global economy, and especially the US economy, had contracted. The insurance and securities, travel, and tourism industries experienced a sharp change in demand (Kosová & Enz, 2012), (Miron & Cernuşca, 2008). The stock market had been closed, and unemployment rates rose within just a few days following the occurrence (Roberts, 2009).

In recent times, Russia's invasion of Ukraine caused global inflation by increasing the prices of natural gas and fuel, along with many foods, commodities, and agro-products (Mbah & Wasum, 2022). The war resulted in a great economic loss, which has impacted daily economic life (Khudaykulova, Yuanqiong, & Khudaykulov, 2022), ultimately contaminating the whole global economy (Astrov, et al., 2022), (Shah & Gedamkar, 2022). The sanctions imposed by the United States, along with those of the European Union, have led to a steady decline in the Iranian economy. Households have faced inflated prices for essential goods (Hejazi & Emamgholipour, 2020) and increased unemployment; sharp devaluation in the currency exchange rate (Nakhli, Rafat, Dastjerdi, & Rafei, 2020) has resulted in diminishing purchasing power (Kokabisaghi, 2018). Similarly, geopolitical tension and internal unrest in countries such as Sudan, Syria, and Somalia are negatively affecting overall economic performance. Consequently, consumers lack the confidence to make long-term purchases and, in some cases, are unable to afford even essential goods.

As a result, households are significantly impacted by the political outcomes of a nation. During cabinet changes or periods of policy uncertainty, tension spreads throughout the entire country, causing even rural residents to become excited about the decisions being made. In democratic nations such as Türkiye or Bangladesh, people's long-term purchasing and investment decisions are influenced during parliamentary or local elections. Furthermore, cabinet changes in several developed nations, such as the USA, China, and the UK, create uncertainties for domestic investors, marketers, and individuals, not only in the realm of national politics. This is primarily because domestic economic indicators, such as currency value, trade balance, and foreign investment (FDI) flows, are directly impacted by the policies and regulations of foreign governments. Therefore, both national as well as foreign political uncertainties, the quality of governance, and the transparency of policies are of great importance to the domestic market. Throughout this study, I intend to thoroughly explore whether such political environments impact domestic consumer behavior throughout their consumption and savings.

1.2. The Rationale of the Study

Numerous studies have explored the effects of political uncertainties and government policies on areas such as the economy, finance, and foreign trade. In addition, a number of researchers have investigated consumer behavior, particularly how consumers

respond to various natural or political events. While some research has examined the effects of political uncertainties on sensitive industries like entertainment, hospitality, and tourism, there remains a gap in studies specifically addressing how political changes affect consumer behavior, i.e., their daily purchasing and saving decisions.

This study seeks to address this gap by connecting political uncertainties with changes in consumer purchasing sentiment. It will provide valuable insights for marketers, helping them adapt their strategies to better resonate with consumers' emotions during such periods, ensuring their communications are aligned with the current political climate. Businesses will gain a deeper understanding of how to navigate this complex environment, as their decisions can significantly affect both their reputation and sales. Consumers, in turn, will become more aware of how political changes shape their purchasing choices. Finally, this research will offer academic scholars a foundation to further explore consumer behavior in the context of political uncertainties, governance quality, and inconspicuous policies.

1.3. The Significance of the Study

Behaviorism or Behavioral Psychology has gained significant momentum in recent years. Social science researchers are making substantial efforts to understand human behavior in various contexts. Marketing professionals consistently delve into the realm of behavioral psychology to analyze how individuals respond to different environments and how their purchasing behaviors differ across diverse economic, social, and political landscapes. Since the last century, marketing-related issues have become increasingly important in global economic research. Marketing organizations dedicate considerable time to collecting relevant data that aids them in developing strategies for their current and future products or services. Similarly, national statistical agencies work on this data to support the country's monetary authorities in implementing effective financial policies.

Extensive research has been carried out on consumer behavior, including studies on consumer reactions to terrorism (Becker & Rubinstein, 2011), social unrest, economic uncertainty, as well as consumer confidence and sentiment (Uzun & Deniz, 2010). After the onset of the global COVID-19 pandemic, many individuals lost their jobs, manufacturers halted their production, and the global economy came to a standstill. In response, numerous studies have been conducted to assess consumer reactions to price

fluctuations known as inflation, shifts in purchasing preferences, the rise of online shopping, and developments in the stock market (Oana, 2020), (Karaboğa & Özsaatçı, 2021).

Conversely, a substantial amount of research has been focused on the influence of political changes and policy uncertainties on the national economy and its growth (Ari & Veiga, 2011), the national as well as the global stock markets (Jiun, 2018). However, there has been a lack of studies examining how political instability and the quality of governance influence consumer behavior. Factors such as purchasing power (PP), consumption expenditure, savings, and consumer confidence are all strongly linked to political uncertainty through aspects like employment, government expenditure, monetary policy, and the current account balance & so forth. This study aims to explore this relationship in depth. I anticipate that the findings will help academic researchers gain a better understanding of consumer behavior and behavioral psychology, while also assisting professionals and national policymakers in developing more predictable marketing strategies and financial or monetary policies.

1.4. The Limitations of the Study

Similar to other research and studies, this thesis also has its limitations. While flashpoint is not always detrimental, it does present a new scope and horizon for further exploration. Firstly, this study focuses on consumer behavior based on certain specific independent variables; however, numerous other variables can also influence this context simultaneously. No quantitative or qualitative analysis, within this integrated marketing environment, can comprehensively capture consumer behavior based solely on some specific criteria. Additionally, there is a shortage of adequate studies connecting consumer behavior to environments of political stability, and this research may pave the way for future investigations on that subject. Lastly, this thesis aims to focus on the consumer markets in Bangladesh and Türkiye, but generalizing the conclusions drawn may not be a prudent approach in this case.

1.5. The Research Questions and The Hypotheses of the Study

This study aims to assess consumer responses and behaviors during periods of political uncertainty, highlighting the impact of political instability on households' consumption patterns. It will thoroughly explore the following question(s).

- Does political instability (reflected in government consistency, its efficiency, and broader political dimensions) have any effect on consumer behavior (consumer expenditure or confidence)?

Numerous studies have examined consumer behavior from various marketing perspectives, focusing on political stability and its impact predominantly on national economic performance. However, in today's interconnected world, these factors are closely linked. Consumer behavior is not solely influenced by current income capabilities or employment facilities, but also by expectations of future income possibilities, along with national and global economic conditions, local or national regulatory policies, and several other socio-cultural factors. Therefore, it is worthwhile to evaluate consumption patterns through a political lens, which this inquiry aims to unveil.

To address this question, I utilize secondary resources. I have gathered relevant data from the World Bank Dataset, which includes open data spanning from 1991 to 2024. Additionally, some information has been sourced from the OECD Library, the MasterCard, TUIK, and some other open databases.

Hypotheses of the Thesis

To delve into the core concept of this thesis, several hypotheses have been developed based on the questions it seeks to explore, specifically whether,

- Political Instability, Government Effectiveness, Current Account Balance (Per Capita), Unemployment Rate, and GDP (Per Capita) have any significant impact on Household Consumption Behavior (Consumer Expenditure).
- Political Instability, Government Effectiveness, Current Account Balance (Per Capita), Unemployment Rate, and GDP Per Capita have any significant impact on Consumer Saving Behavior.
- Political Instability, Government Effectiveness, Current Account Balance (Per Capita), Unemployment Rate, and GDP Per Capita have any significant impact on Consumer Confidence.

Consumer behavior, particularly in terms of consumption, can largely be understood through various factors, including consumer confidence in national economic performance, household expenditure patterns, gross or net savings, and personal borrowing or lending activities. However, this study specifically focuses on consumer

confidence, consumption, and saving, aiming to provide a more in-depth analysis. By narrowing the scope to these key dimensions, the research seeks to offer a deeper understanding of consumer society as these dynamics are introduced to the audience.

1.6. The Outline of the Study

This study is literally organized into four chapters. The first chapter provides a general overview and discusses the motivations behind addressing political instability and its impact on consumer behavior, highlighting the importance of such research in today's academic landscape.

The second chapter offers an in-depth exploration of the topic, examining how political instability leads to chaos in the consumer market due to economic distress. It discusses how political uncertainties have influenced household consumption patterns, particularly reflecting on the changes observed in Eastern Europe and Russia at the end of the last century, and in Ukraine, Syria, Iran, and so on, continuing into the present. Additionally, this chapter addresses how external political forces can disrupt domestic market dynamics. Chapter three outlines the methodology used in this research in detail.

The fourth chapter presents the results of the analysis, including evaluations of the measurement model, explanations of the working hypotheses, and a thorough discussion of the findings. The study concludes in the final chapter with practical implications and suggestions for future research. Lastly, a bibliography formatted according to American Psychological Association (APA) guidelines is included at the end of the study. An additional appendix has been included to reinforce the regression findings and enhance overall comprehension.

1.7. The Definition of Key Terms

Political Stability refers to the degree to which a government is free from turmoil, violence, or abrupt changes in leadership. It indicates the predictability of political institutions and policies, which play a crucial role in shaping economic decisions and consumer consumption patterns. Whereas *Government Effectiveness* measures the quality of public services, the capacity of the civil service, the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to its policies (Kaufmann, Kraay, & Mastruzzi, 2010).

Consumer Expenditure refers to the total value of goods and services purchased by households over a specific period. It includes spending on necessities like food, housing, and transportation, as well as discretionary items such as entertainment and luxury goods. *Consumer Confidence* is a measure of how optimistic or pessimistic consumers are regarding their expected financial situation and the overall economic outlook. It significantly influences consumer spending and saving behavior (OECD, 2023)

Gross Domestic Product is the sum total of the market value of all final goods and services produced within a country in a given time period. It is widely used as a benchmark for measuring the size and health of an economy (World Bank, 2023).

Unemployment refers to the percentage of the labor force that is willing and able to work but is unable to find employment. It is an essential economic indicator reflecting the health of the labor market (ILO, 2023). The *Current Account Balance* represents a country's transactions with the rest of the world, including net trade in goods and services, net earnings on cross-border investments, and net transfer payments (IMF, 2023).

CHAPTER II

LITERATURE REVIEW

2.1. Political Instability

Political instability is characterized by an unstable, uncertain, and unpredictable political environment within a country. It reflects a prolonged state of upheaval and change in government and political systems, hindering the continuity of political performance. This instability often results in shorter timeframes for policymakers, frequent shifts in national policies, and creates an environment marked by vulnerability and poor economic outcomes (Ari & Veiga, 2011). Political Instability may also stem from a government's inability to effectively implement regulatory policies and mobilize resources to address community conflicts and prevent violence.

Several key factors define political instability, including government instability, evidenced by frequent leadership changes or shifts within the cabinet, and an overall lack of governance efficiency. Corruption and ineffective policy implementation can erode public trust, leading to economic disparity, favoritism, and unaccountability. Additionally, inconsistent economic policies, mismanagement, high national debt, significant unemployment, and pervasive poverty can foster social unrest; therefore, triggering political turmoil. Discriminatory practices, human rights abuses, and the weakness of social and political institutions can also incite unrest among various segments of the population. External political forces may also impact the domestic economic landscape; common indicators among them include foreign intervention, foreign economic or trade policies, and regional disorder, or border tensions. Other indicators may include participation in international conflicts, casualties sustained in external wars, and the expatriation of diplomatic missions.

Political instability is a multifaceted issue arising from the complex interplay of social, political, cultural, and economic factors at both domestic and international levels. It often manifests through frequent changes in government, civil unrest, legislative gridlock, corruption, or external conflicts, each of which poses a threat to institutional continuity and policy reliability (Aisen & Veiga, 2013). As a result, political instability disrupts a country's governance mechanisms and undermines the consistency of economic policies, leading to increased uncertainty within both the public and private sectors (Jong-A-Pin, 2009).

This uncertainty directly influences the domestic market by altering individual purchasing preferences and diminishing consumer confidence. Individuals facing unpredictable economic conditions—such as inflation, unemployment, or currency devaluation—tend to reassess their financial priorities (Alesina, Özler, Roubini, & Swagel, 1996). These uncertainties can result in more conservative consumption patterns, a preference for essential over discretionary goods, and increased precautionary savings. Over time, these behavioral changes at the micro level aggregate into broader macroeconomic shifts, affecting national consumption, saving rates, and investment behaviors.

Moreover, political instability often weakens investor sentiment and disrupts supply chains, contributing to price volatility and constrained access to goods and services. In such environments, marketing strategies must adapt by focusing on consumer risk perceptions, shifting demand structures, and shortened planning horizons. Understanding these dynamics is critical for marketing management, as firms must remain agile in reassessing consumer behavior and preferences in response to political developments.

Given its influence on financial behavior, market sentiment, and consumption dynamics, political instability stands as a critical variable that must be accounted for in both marketing and policy decision-making frameworks.

2.2. Understanding the Economic Impact of Political Instability

Political instability can significantly undermine consumer perception, disrupting national economic development, social cohesion, and international standing. Therefore, its adverse effects on the national economy are a major concern for a country's overall progress. A high level of political inconsistency is closely linked to lower GDP per capita and negatively impacts economic growth by reducing productivity rates (Ari & Veiga, 2011). It also undermines macroeconomic performance by slowing GDP growth, discouraging both private and foreign investment, and disrupting overall market equilibrium. Recent studies by Jong-A-Pin (2009), Alesina & Perotti (1996) suggest that socio-political instability fosters an uncertain political and economic environment, which in turn slows economic growth, heightens risks, and reduces investment levels.

Measuring the overall impact of political inconsistency on the national economy comprehensively is challenging. Factors such as capital investment, currency inflow, and education levels contribute to productivity growth and economic development. Unregulated policies and a lack of effective implementation can further influence the economy through labor migration, capital flows, and imbalanced market conditions. Ari & Veiga (2011) identified a significant correlation between economic growth and these variables. Tavares & Wacziarg (2001) argues that although participatory politics may negatively impact economic growth by reducing physical capital accumulation, it simultaneously promotes income equality and improves educational access for the poor—factors that contribute positively to long-term economic prosperity.

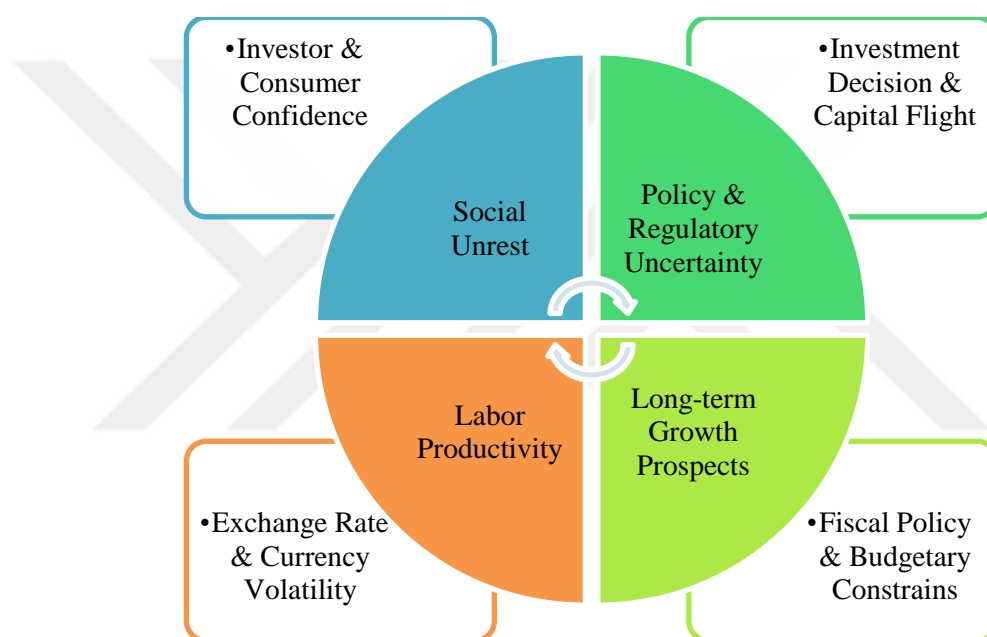


Figure 2.1: The Economic Impact of Political Instability

Source: Developed for This Study Using MS Word

Political uncertainty can produce both positive and negative effects on a nation's economy. The relationship between political instability and economic distress is perplexing, with various interconnected factors contributing to its adverse effects. Below are some of the ways political instability can lead to economic distress.

Economic Growth: Political stability and economic growth are profoundly interconnected, as an unstable political environment creates uncertainty that can hinder both investment and overall economic progress (Kaplan & Akçoraoğlu, 2017). During periods of political upheaval, entrepreneurs may hesitate to adopt new marketing strategies, such as launching new production facilities or reorganizing existing ones.

Investors often become reluctant to commit capital to new ventures, marketers struggle to draw effective conclusions, and households may limit their purchases of long-lasting goods.

Most of these phenomena have been observed in the recent fall of the Bangladeshi government in August 2024. Protest against the government was strengthened by not sending the remittance to domestic banks, which in turn resulted in shortening the foreign currency reserve (Star Business Report, 2024). Following the fall of the parliamentary government, many businesses began shutting down operations (RTV News, 2024), resulting in increased unemployment and economic hardship. Foreign investors also started withdrawing their investments, forcing several production facilities to cease operations.

Conversely, poor economic performance can lead to political instability and governmental collapse. Notable historical instances include Robert Mugabe's leadership in Zimbabwe in the late 1990s and early 2000s (Muronzi, 2019), Argentina's economic collapse in the early 2000s, the prolonged crisis in Venezuela, and the breakup of the Soviet Union in the 1990s (Shleifer & Vishny, 1991). Economic stagnation, inefficiency, mismanagement, and political gridlock have often prompted widespread protests and the eventual decline of governments in these countries. Several studies indicate that countries with high political instability typically experience lower GDP growth (Alesina, Özler, Roubini, & Swagel, 1996), (Barro, 1991), (Fosu, 1992), (Butkiewicz & Yanikkaya, 2005), & (Gasirowski, 1998). Frequent changes in government create uncertainty regarding potential new policies, making risk-averse economic actors hesitant to engage in economic activities, which may lead to a temporary decline in economic performance.

Investment Uncertainty: Political uncertainty often leads to an unpredictable business environment. Such uncertainties within the socio-political landscape impose significant challenges for both investment and the economy. In an unstable economic environment, investors tend to become risk-averse, postponing potential new investments, withdrawing existing ones, or seeking alternative markets perceived as less risky. This situation can hinder the development and maintenance of critical infrastructure, making long-term investments less attractive. According to Ari and Veiga (2011), political instability negatively influences investment by reducing physical capital accumulation. Similarly, Zouhaier & Karim (2012) found an inverse

relationship between political instability and investment levels in the Middle East and North Africa (MENA) region. In the case of Pakistan, political uncertainty significantly disrupts long-term foreign direct investment (FDI) and hinders international trade (Qadri, Shah, & Qureshi, 2020).

Political instability can also lead to unpredictable investment returns due to abrupt changes in government regulations affecting taxes, business policies, and even property rights. Imprecision about government policies, property rights, and the overall business environment can cast down both domestic and foreign investments.

Reduced Foreign Direct Investment: Overseas investors are particularly vulnerable to political uncertainty; they prefer a sound political environment characterized by less policy ambiguity and clearer property rights (Alesina, Ozler, Roubini, & Swagel, 1996). Political unrest in a country typically results in a decrease in FDI (Brada, Kutan, & Yigit, 2006). Potential changes in government regime, social unrest, or unpredictable shifts in government and economic policies undermine the confidence of foreign investors, leading them to delay or withdraw their capital in favor of more stable environments.

FDI plays a vital role in driving economic growth by enabling technology transfer, boosting the productivity of local firms, and meeting financial capital requirements, which in turn generates employment opportunities. For example, Malaysia's consistent economic and investment progress is largely credited to its stable political climate (Nazeer & Masih, 2017). In contrast, Lebanon has faced economic setbacks due to political unrest in the region, causing a significant outflow of foreign investments (Bitar, Hamadeh, & Khoueiri, 2017). The decline in FDI restricts economic development by limiting the flow of capital, technology, and expertise, which can result in slower economic growth and a weakened domestic market, creating a cycle of instability that further deters investment.

Decreased Productivity: Political instability and productivity are adversely correlated to each other. High levels of political uncertainty tend to decrease the productivity rate. The opposite is also feasible; civil unrest and reduced productivity can also lead to political instability; both democratic and authoritarian regimes may experience the effects of economic growth on governmental changes (Alesina, Ozler, Roubini, & Swagel, 1996).

Instances of political or social unrest such as protests, strikes, or violence can disrupt everyday business operations activities, impacting supply; consequently, decreasing production return. Such disturbances can hinder regular operations for producers and markets, resulting in reduced employee working hours and potentially leading to a loss of production capacity (Ari & Veiga, 2011). Additionally, a breakdown in law and order can cause corruption rates to rise, further hindering economic activities. Geopolitical stress can also negatively impact human capital; as the uncertainty it brings may deter individuals from following their career aspirations. Additionally, labor shortages can occur when workers either relocate or are prevented from working due to security risks.

Currency Depreciation: Political instability erodes confidence in national economic performance, leading to a potential devaluation of the local currency. Countries with ineffective monetary and financial management, characterized by excessive lending, limited reserves, and inflated exchange rate policies impact their exchange rate regime (Bussiere & Mulder, 2000). Exchange rate crisis may occur unexpectedly during periods of government transition or when issues related to bad loans worsen.

A depreciated currency increases import costs, leading to inflation and complicating future planning for both businesses as well as consumers. Excessive inflation can also hinder long-run economic growth. If there is doubt in the banking or financial sectors, it could escalate into a crisis, particularly if economic fundamentals decline. Factors such as those impacting trade balance or investor confidence can lead to a liquidity shortage and exert pressure on the exchange rate. Furthermore, it may discourage investment, raise the pressure of trade tax burden on GDP and reliance on seigniorage for budget funding, and adversely affect the autonomy of central banks (Cukierman, Edwards, & Tabellini, 1989), (Boschen & Weise, 2004).

Government Debt and Fiscal Challenges: Political instability can lead to ineffective governance regimes, resulting in mismanagement of public finances. Governments facing political turmoil may resort to populist tactics, engaging in excessive spending, or struggling to implement essential economic reforms. Persson & Tabellini (2002) argues that countries plagued by political unrest or violence are more prone to rent-seeking behavior resulting in extreme levels of debt burden, consequently, governments implement inflated taxation to encounter undeliberate expenditures. In addition, because of political upheaval, spending on defense, national security, and

public administration often increases significantly which limits investment in human and capital investment. Also governments that change frequently find it difficult to secure long-term financing (Tosun, Guran, & Ulucan, 2008). All these situations can lead to an escalation of national debt, resulting in fiscal difficulties and economic distress.

Social Unrest and Unemployment: Political inconsistency can lead to social unrest and conflicts, often exacerbated by economic grievances such as high unemployment and income inequality. Political instability can impede productivity growth (Ari & Veiga, 2011), and to the least extent, the accumulation of human and physical capital, which negatively affects economic growth. While economic growth is likely to influence income distribution, political dissatisfaction can also stem from rising inequality. This social unrest can further widen the income gap by hindering economic growth, intensifying socio-economic disparities, generating political uncertainty, weakening state authority, undermining public confidence & spending initiatives, increasing economic costs, and diminishing the quality of public investments (Kaplan & Akçoraoğlu, 2017).

Political instability is a complex, multidimensional issue that poses serious obstacles to a nation's economic growth and social cohesion, and unity. The interplay between political unrest and economic distress manifests through numerous channels, including reduced investment, diminished productivity, currency depreciation, and increased government debt. As evidenced by historical and contemporary examples, the reciprocal relationship between poor economic performance and political turmoil creates a vicious cycle that exacerbates both socio-economic inequalities and political uncertainty.

The adverse effects of political instability are particularly pronounced in environments characterized by high unemployment rates, economic mismanagement, and social unrest. As businesses grapple with the unpredictability of an unstable political landscape, they become hesitant to invest, innovate, or expand, ultimately impeding economic growth and exacerbating existing grievances among the populace. Conversely, economic distress can catalyze political instability, as seen in various countries throughout history. The resulting unrest not only undermines the authority of the state but also erodes public confidence in governance, leading to a decline in public services, public or social investment, household consumption and finally,

consumer confidence. To mitigate these challenges and foster a more stable economic environment, policymakers must prioritize the establishment of clear, consistent governance structures and effective economic policies that promote investment, return possibility, and finally social and economic cohesion. Addressing political instability often requires comprehensive efforts to strengthen institutions, promote good governance, and create a more predictable and stable political environment.

2.3. Consumer Behavior

A consumer simply refers to a person, an individual, or a group of people who purchases goods, products, or services primarily for personal, family, social, or similar purposes (Wikipedia, 2024). Unlike customers, consumers purchase a good or service for dispose, not directly attributed to any kind of entrepreneurial or business activity. Consumer behavior involves studying how individuals, groups, or organizations choose, purchase, use, and dispose of products, services, ideas, or experiences to meet their needs and wants. Simply it includes understanding the decision-making process that begins with recognizing a need or want, continues through the purchasing decision, and extends to post-purchase evaluation and disposal.

Understanding consumer behavior is essential because it enables businesses and marketers to predict and influence consumer preferences, motivations, and choices. To explain consumer decision-making, behavioral scientists initiated various theoretical models, such as the economic model (which focuses on rational decisions based on utility maximization), the psychological model (which looks at cognitive and psychological factors), and the sociological model (which emphasizes social and cultural influences). Here are some key components of consumer behavior; consumer purchasing process or cycle which need to be described to understand the consumer study.

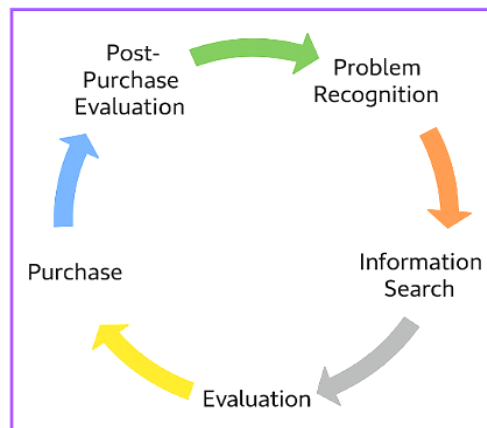


Figure 2.2: Stages of the Consumer Decision-Making Process

Source: Aeroleads.com_Buyer Behavior Model Decode

Needs and Wants: Consumer behavior starts with the recognition of their needs and wants. Needs refer to basic states of deprivation, such as hunger, thirst, or the need for shelter, while wants are specific desires for goods and services that satisfy those needs.

Understanding consumers' needs and their wants is a complex phenomenon. Marketers often base their strategies on identifying what consumers need or want to purchase. However, consumers may not always be fully aware of their needs or desires, even if they believe they are (Requelme, 2001). Consumer needs, which are met through the purchase of specific products or services, can also differ greatly due to the socio-economic and cultural variations present in different markets. Additionally, consumer preferences change over time as their circumstances and environments evolve (Yau, 1994).

Searching for Information: Searching for relevant information is a crucial step in the consumer decision-making process. Once a need or desire is identified, consumers often look for information to explore their choices and evaluate which option offers the greatest value or benefit. While it's not feasible to consider all available information, this search remains an essential component of the buying journey. Consumers rely on both internal sources, such as memories and previous experiences, and external sources like advertisements, product reviews, and personal recommendations. The extent to which a consumer seeks information can strongly influence their final purchase decision, with factors like price and how often the product is bought playing a key role in this behavior (Jun & Park, 2016).

Evaluation of Alternatives: Consumers typically behave rationally, aiming to maximize their satisfaction while minimizing costs when making purchasing decisions. They typically evaluate multiple alternatives, considering factors such as perceived quality, price, value, features, brand reputation, and personal preferences. By comparing all of these options, consumers try to achieve the best possible utility. In most cases, product quality, associated image and price are key determinants of their perceived value.

Purchasing Decision & Post-Purchase Evaluation: Once consumers have assessed their alternatives, they proceed to make a purchase by choosing the product or service that best fits their needs and preferences. Their final purchasing decision can be influenced by various factors, including product availability, pricing or discounts, ongoing promotions, and available payment methods.

However, the consumer journey does not end with the purchase is completed. After concluding a purchase, consumers reflect on whether the product or service meets their ultimate expectations (Chen-Yu & Kincade, 2001). If the product meets or exceeds expectations, it strengthens positive attitudes, leading to repeat purchases and brand loyalty. However, if there's a mismatch between expectations and actual performance, it can result in dissatisfaction and negative word-of-mouth (Park, Cho, & Rao, 2015).

Consumer behavior, as a field of study, is relatively a new phenomenon, that emerged in the mid-20th century as an effort to understand household demand and consumption patterns. In the pre-industrial and industrial periods, marketing was the composition of production and demand, which were driven solely by production costs and household needs. Nowadays, an individual's purchasing decision of the day is driven by several internal and external factors. Socio-cultural evolution, economic development, technological changes, transportation improvements, the presence of several social media platforms, and the effects of globalization are all shaping consumer trends and preferences, reaching even the most remote corners of the world.

Grasping consumer behavior and truly, understanding consumer's perception is quite challenging. A customer's decision to make a purchase is not a haphazard action; it is a process influenced by a variety of factors. Accurately predicting how an individual will act in a certain situation is nearly impossible due to a number of variables at play. Marketers have discovered several internal as well as external factors that may

influence households' purchasing decision. Internal factors include psychological influences (such as motivation, perception, attitudes etc.), personal characteristics (like age, gender, personality etc.), and socio-cultural factors. External factors involve marketing efforts, social influences, economic conditions, and some other situational factors (Stávková, Stejskal, & Toufarová, 2007), (Jisana, 2014), (Gajjar, 2013). Several key factors that shape consumer behavior are explored further.

| | |
|------------------------------|---|
| Personal Factors | <ul style="list-style-type: none"> •Gender •Age •Stage of Life & Lifestyle •Activities, Interests |
| Psychological Factors | <ul style="list-style-type: none"> •Motivation •Perception •Attitude •Experience |
| Societal Factors | <ul style="list-style-type: none"> •Culture & Subculture •Social Class •Reference Groups •Opinion Leaders |
| External Factors | <ul style="list-style-type: none"> •Situational Factors •Social Norms •Recognition of Needs •Time & Convenience |

Figure 2.3: Factors Shaping Consumer Behavior

Source: Developed for This Study Using MS Word

Psychological Factors: Psychology encompasses the study of the mind and behavior, examining both conscious and unconscious processes, as well as an individual's mental activities such as thoughts, emotions, and motivations. Consumers, an intricate socio-psychological being, are influenced in their decision-making by psychological factors. Their feelings, thoughts, and actions are shaped by various psychological elements. The psychological factors that affect a person's purchasing decisions include motivations, perceptions, learning experiences, attitudes, and so forth. The mental, emotional, and physical activities when selecting, purchasing, disposing of, and using a product or service might affect the consumer's purchasing decision (Durmaz, 2014).

Socio-Cultural Factors: Culture refers to the set of core values, perceptions, beliefs, desires, and behaviors that individuals acquire from their families, belongings, and other influential social institutions. Culture is an integral aspect of society and plays a

substantial role in the way shaping individual preferences and actions. This cultural aspect encompasses the influence of family, friends, social classes, reference groups, and social media on consumer behavior. While the effect of culture on purchasing decisions can vary between countries, cultural elements such as religion, geographic location, and ethnic groups consistently impact consumer choices, helping to explain variations in buying behavior across different societies (Jisana, 2014).

Economic Factor: An individual's purchasing decision is reinforced by the economic capability; as financial circumstances play a key disposition in shaping consumer behavior (Gajjar, 2013). The socio-economic environment creates different social strata, which in turn accelerates varying consumption patterns within society. A consumer's income level or disposable income directly affects their day-to-day purchasing choices. When income and savings are high, consumers are more likely to purchase expensive items and luxury goods, and the demand for imported products tends to rise. Conversely, when economic conditions are unfavorable, purchasing behavior shifts accordingly.

Changes in the broader economy also have a significant impact on individual purchasing decisions. Factors such as unemployment, concerns about job security, interest rates, and inflation can reduce consumers' overall purchasing power, affecting both their consumption and saving patterns. In such inverse economic conditions, individuals may emphasize on indispensable goods or services, adjusting household expenditures accordingly (Gafurdjan, 2024).

Personality & Personal Factors: Personality refers to a unique set of behaviors, thoughts, and traits that distinguish individuals from one another. It encompasses attitudes, interpersonal styles, habits, abilities, and thought processes, influencing how a person reacts to specific situations and their preferred way of behaving in a particular environment. Personal factors such as age, gender, occupation, personality, lifestyle, and values have an indicative impact on consumer purchasing behavior.

Personality is not static; it can vary across individuals and change over time or in different contexts. Personal factors, both directly and indirectly, affect consumer purchasing decisions. For example, consumer preferences shift at different stages of life, such as age, life cycle, or relationship status (Qazzafi, 2020), as well as changes in income level. A person's personality is often reflected in their product or service

preferences, occupation, income, and purchase choices. Ultimately, an individual's lifestyle is shaped by the products and services they choose, which contribute to the image they create for themselves.

Situational Factors: Consumer purchasing behavior is a dynamic process influenced by factors such as time, location, personal knowledge, and situational context. These elements have a measurable and systematic effect on purchasing decisions. Key factors include the time and place of the purchase, the store environment, the variety of available options, time constraints, the availability of alternatives and money, social norms, word-of-mouth recommendations, and the urgency of the consumer's need while buying a particular product (Khorrami, Esfidani, & Delavari, 2015).

Understanding consumer behavior, the consumer's decision-making process, is perplexing and influenced by a variety of factors, including internal psychological elements, sociocultural influences, economic conditions, personal characteristics, and situational contexts. Recognition of needs and wants to initiate the consumer journey, leading to information search and evaluation alternatives, culminating in purchasing decisions and post-purchase evaluations. This cyclical nature of consumer behavior highlights the importance of anticipating not only just what consumers will buy, but also why they make those choices.

Psychological factors, such as motivation and perception, play a significant role in shaping consumer attitudes and decisions, while socio-cultural factors, including cultural norms and social influences, further delineate consumer preferences. Economic conditions, encompassing income levels and broader economic environments, directly impact consumer purchasing power and behavior. Personal factors, including age, gender, and lifestyle, add additional layers of complexity to understanding consumer choices. Finally, situational factors, such as the context of the purchase and prevailing social norms, can influence consumer behavior at any given moment. In a rapidly globalizing world where consumer preferences are continuously evolving, businesses that invest in understanding these behavioral dynamics will be better positioned to create targeted marketing strategies, foster customer loyalty, and ultimately drive sales. As consumer behavior continues to evolve, ongoing research and analysis will be essential for businesses to remain responsive and relevant in an increasingly competitive marketplace.

2.4. The Interplay of Political Instability and Consumer Behavior

The relationship between politics and consumer behavior is not a concurrent event, it is a dynamic and interdependent process. Since the very beginning, the political and economic structure heavily influenced consumer behavior. Even in the agricultural society, the lower class, including the poor and peasants, were dominated by the upper class, often the landlords. Private land ownership was not in practice, and public welfare was primarily determined by agro products, rents, taxes, and other modes of economic exchange. In rural societies, there were complex, multi-stranded relationships between peasants and landlords, with the latter providing cultivable land and, in some cases, security for life and agricultural components. In return, peasants were obliged to rent land from the landlords, thereby creating a system that governed their subsistence and livelihood.

During the post-industrial era, capitalists and industrialists emerged as the supposed saviors of the laboring peasants. Peasants began to transform into open villages, where individual accountability for tax payments became the norm, and land ownership was no longer restricted. This new environment allowed for minimal limitations on personal or collective land ownership and introduced privately owned properties (Popkin, 1980). However, in this system, the living conditions of the subordinates were still largely determined by the superiors, the demands of the labor class were governed by economic capabilities and intensively produced goods.

The Industrial Revolution brought about a significant transformation in economic systems and production methods. This shift led to the establishment of a new socio-economic order, characterized by the distinction between residential areas and workplaces. This period saw the emergence of bureaucracy, aristocracy, capitalist societies, and a distinct labor class. The revolution also marked the separation of consumers between urban and rural areas, alongside the growth of institutions dedicated to technological research and innovation (Sima, Gheorghe, Subić, & Nancu, 2020).

Since the Industrial Revolution, economy and politics have intertwined. Government policies, law enforcement, local and international treaties, and global business practices began to significantly impact domestic economies, individual incomes, and consumption decisions. Following World War II, measures such as sanctions,

embargoes, government subsidies, treaties, and agreements were widely implemented to either stabilize domestic economies or gain leverage over counterparts.

In economic history, the impact of politics on consumers, particularly through economic distress, has been noticed in a series. One prominent example is the Great Depression, which was triggered by inefficient political decisions such as the gold standard and international exchange rate policies (Smiley, 2024). The effects of the Depression were not only severely felt in the United States but also extended globally, causing widespread economic hardship. This period saw approximately 25 percent of the total workforce and 37 percent of non-agricultural workers unemployed, leading to devastating outcomes, including famine, loss of farmland and housing, and a significant increase in homelessness (Farisi, 2024).

Following the Great Depression, World War II caused further global devastation. The war resulted in massive loss of life, displacement of residents, and severe economic disruptions, including high unemployment, inflation, and trade deficits. Shortages of essential goods including food and fuel persisted even after the war ended. The war also caused a disruption in consumer spending patterns, as production was limited due to war-related restrictions. However, the aftermath of the war saw the rapid growth of skilled labor and manufacturing, an expansion in global trade, and the creation of larger domestic markets, leading to long-term economic changes (Mlambo, 2009).

In the transition period following the collapse of the Soviet Union, many regions, especially Eastern Europe and Central Asia, faced an uncertain economic future. The downturn of the Soviet economy was influenced by several internal and external shocks; centralized policies, economic freedom, difficulties in the oil sector, strikes in early 1990s, the breakdown of trade relations with Eastern Europe, factory closures due to environmental concerns, and regional conflicts within the USSR (Shleifer & Vishny, 1991). Poor and ineffective management in state-owned companies led to frequent shortages of consumer goods, particularly agricultural products, contributing to inflation and economic instability. The dismantling of manufacturing sites escalated unemployment, and as markets shrank with limited goods, consumer income opportunities were reduced, leading to a decrease in purchasing capability (Mazat, 2016).

However, the collapse of the Soviet system also brought about positive changes. Consumers gained access to a wider variety of products and brands that were previously unavailable, transforming consumer habits and expectations. The introduction of market freedom attracted foreign investments, leading to more stable consumer incomes and the possibility of long-term manufacturing growth. This transition, though beneficial in some respects, also resulted in considerable socio-economic disparities. As consumer goods became more available, new consumer culture emerged. Individuals increasingly emphasized personal consumption and material goods, reflecting Western consumerism. This shift led to the blending of local traditions with global consumer trends, reshaping cultural views and lifestyles.

In more recent years, political movements such as the Wisconsin protests, the Occupy Movement, and Anti-austerity demonstrations have further illustrated the convergence of politics and economics (Shah, Friedland, & Rojas, 2012). The Wisconsin protests had a complex set of effects on consumers, influencing their sentiment & spending behavior, and interactions with public services, while fostering new patterns of economic engagement based on political beliefs. Similarly, the Occupy Movement highlighted economic inequality and significantly influenced consumer purchasing behavior, especially among younger generations, by raising awareness of critical economic issues. And the Anti-austerity demonstrations had significant effects on consumer habits by increasing awareness of economic policies, encouraging political consumerism, and fostering a sense of community and solidarity.

Recently the boycott of Israeli products has emerged as a significant form of protest against Israeli policies, particularly concerning the Israel-Palestine conflict. Though the boycott aims to raise awareness about perceived injustices faced by Palestinians, it is linked to various motivations including economic antisemitism, individual norms, and ethnocentrism (Hino, 2024), (Awaludin & Al-Khaidar, 2023); encouraging consumers to make more informed and awakened shopping decisions. The boycott has influenced consumer behavior by shaping purchasing patterns, promoting social engagement, and altering community dynamics. As consumers increasingly research the origins of products and the ethical implications of their choices, demand for goods produced in other countries or by companies that align with their values has grown.

Political ideologies shape consumer preferences, regulatory frameworks influence availability and pricing, and social movements drive changes in purchasing patterns.

The inverse may also happen, consumer sentiment can impact political decisions and policies, creating a continuous cycle of influence between the two spheres. The relationship between politics and consumer behavior is multifaceted and can manifest in several ways. Some of them are discussed here.

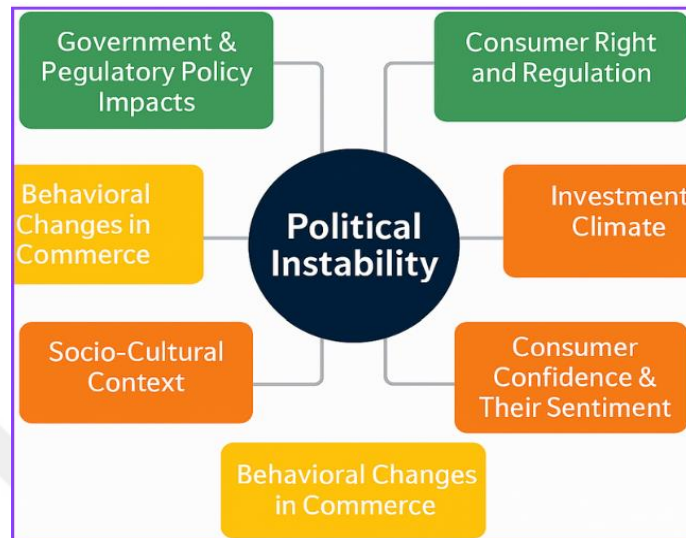


Figure 2.4: Multifaceted Relationship Between Politics and Consumer Behavior

Source: Developed for This Study Using MS Word

Government & Regulatory Policy Impacts: Government and regulatory policies play a crucial role in shaping the consumer experience. Political decisions and policies—including taxation, trade regulations, fiscal measures, and sustainability initiatives—can directly affect consumer behavior by altering disposable income, purchasing power, and overall economic conditions. Research by Tagkalakis (2008) indicates that fiscal policy can effectively boost private consumption, particularly when households face tight liquidity constraints.

Additionally, sustainable policies may impact consumer perceptions and behaviors regarding initiatives (Singh, Duggal, & Duggal, 2024). A stable political environment is vital, as it enables businesses to plan for the long term and helps consumers make thoughtful financial and spending decisions. For example, changes in tax rates can influence consumer spending choices, while trade policies can affect the availability and prices of imported goods.

Consumer Right and Regulation: Consumer rights regulations play a significant role in influencing consumer behavior by establishing a legal framework that safeguards consumers in the market. Political measures such as consumer protection laws, product

safety standards (Rösner, Haucap, & Heimeshoff, 2020), and advertising regulations (Calfee, 2002) impact how consumers make choices, engage with businesses, and understand their rights. Additionally, corporate social responsibility and socio-cultural awareness significantly influence consumer behavior (Ishak & Zabil, 2012). Strong consumer protection policies can boost consumer confidence, resulting in increased spending, while weak regulations or poor enforcement can undermine trust and negatively affect consumer behavior.

These regulations typically require businesses to offer transparent and accurate details about their products and services, helping consumers make better-informed choices. With access to important details about pricing, quality, and potential risks, consumers can effectively compare options and select products that best suit their needs. Overall, consumer rights regulations greatly influence consumer behavior by building trust, promoting informed decision-making (Micklitz, Reisch, & Hagen, 2011), empowering consumers, instigating behavioral shifts, enhancing business accountability, and fostering competition in the market. When consumers feel well-secure and adequately informed, they tend to engage more positively with the marketplace.

Investment Climate: Political stability is essential for fostering a favorable investment climate. In contrast, political uncertainty tends to undermine this climate (Ari & Veiga, 2011). Investors may become apprehensive about sudden changes in political dimensions, particularly those that influence trade policies, regulatory frameworks add further layers of complexity, making it crucial for stakeholders to remain flexible and responsive. Such fears can lead to a decrease in investment inflows (Burger, Ianchovichina, & Rijkers, 2016) which in turn results in slower economic growth and fewer job opportunities. This results in a cycle of diminishing investor confidence and economic performance. Global economic instability also frequently leads to erratic shifts in demand, which can undermine financial stability and necessitate a reevaluation of business strategies (Zaslavska & Zaslavska, 2024). On the other hand, stable political conditions usually attract both domestic and foreign investments, which contribute to economic growth, job creation, and heightened consumer spending.

However, there exists an inverse connection between political instability and various important elements, such as financial savings, the gathering of durable assets like a home, and investments in education and healthcare (Büttner, Grimm, & Soubeiga, 2022). Whenever uncertainty encompasses the national economy, individual investors

tend to prefer short-term and more liquid investments rather than long-term options like real estate or stocks, as they are concerned about how political events may impact the value of these assets over time. When investors perceive a high level of political risk, they are likely to withdraw their existing investments or refrain from making new commitments (Ibrahim & Ngahane, 2024). Consequently, reduced investment hampers potential economic growth, negatively affecting consumer purchasing patterns as individuals are concerned about forthcoming financial security.

Political Ideology: Consumers' political beliefs and values can influence not only their purchasing decisions (Irmak, Thrasher, & Murdock, 2014) but also their interactions with specific products and the overall marketplace. For example, some individuals may choose to support businesses or boycott products or brands based on their alignment with particular political (Etrata, Flores, Lina, Tulayba, & Viray, 2022) or social ideologies (Ordabayeva & Fernandes, 2018). Ethical and conscious consumers often favor brands that advocate for social justice (Caldwell, Elliot, Henry, & O'Connor, 2020), environmental sustainability (Mathur & Moschis, 2022), and ethical practices (Antonetti & Anesa, 2017). Conversely, conservative consumers are likely to prefer brands that emphasize traditional values, patriotism, or free-market principles.

Moreover, individuals often experience a sense of community with others who share their common political beliefs (Crockett & Wallendorf, 2004) which can drive their consumer behavior. Many engage in activism by supporting companies that take strong stances on relevant political issues. Consumers who align with specific political ideologies may prioritize purchasing from companies that uphold the same ethical and ideological standards, such as fair labor practices or environmentally friendly products. Additionally, depending on their economic perspectives, consumers may respond differently to various policy strategies and take the prevailing political climate into account when making long-term financial decisions, including investments or the acquisition of significant items.

Consumer Confidence & Their Sentiment: Forthcoming uncertainties can significantly influence consumer perceptions (Durrani, Fatima, & Ahmed, 2023). Consumers have an extended tendency to change their purchasing decisions because of the financial challenges in any unstable condition. When the political environment is stable, consumers tend to feel more secure and optimistic about their economic prospects

(Vuchelen, 1995). This sense of security often encourages them to spend more, as they believe that their jobs and financial situations are safe. In times of political stability, consumer confidence is high, encouraging expenditure and investment, and leading to greater use of discretionary income (Raaij, 2016).

However, political instability generates negative sentiments that affect consumer confidence, leading to reduced optimism about the future. Political factors such as frequent changes in government, policy uncertainties, civil unrest, corruption scandals, or general political turmoil can have a detrimental effect on consumer sentiment (Ghosh, 2021). When consumers perceive the political landscape as unstable, their confidence diminishes (Kallio, 2024), causing them to become more cautious fearing for their financial security (Irani, Athari, & Hadood, 2022) or the overall economic outlook. Fears of economic downturns, job insecurities, inflation, and overall financial instability (Ashraf & Shen, 2019) compel consumers to reassess their consumption priorities, either delaying major purchases or cut back on discretionary spending. As highlighted by Omelchuk, et al., (2022), when faced with uncertainty, consumers typically reduce their spending and focus on saving, rather than making significant purchases. They become more selective, focusing only on what they consider initially necessary for survival. Essential goods and services such as food, healthcare, and shelter take precedence over luxury or non-essential items, prompting a shift in spending behavior. This behavior contrasts sharply with the optimism present in stable political environments (Oral, 2005), where consumers are more likely to invest in long-term purchases (Ari & Veiga, 2011) such as homes, cars, and other durable goods ultimately spending majority of their perceivable income.

The overall effect of political instability is a cultural shift toward frugality, where thriftiness becomes more prevalent, and individuals strive to avoid unnecessary debt as they seek financial security. This cautious behavior leads to a tendency to postpone major discretionary purchases and opt for cost-effective alternatives until political conditions stabilize and economic clarity is restored. Over time, such uncertainty fosters a more conservative approach to consumption, with consumers prioritizing financial security and taking fewer risks in their spending and investment decisions.

Socio-Cultural Context: Political movements, social trends, and cultural values often intersect, impacting consumer behavior. For instance, consumer preferences for specific products or brands may reflect broader cultural shifts and societal norms

influenced by political movements or ideologies. Cultural values play a crucial role in guiding consumer choices, as individuals often seek products and brands that resonate with their cultural identity (Kacen & Lee, 2002). This inclination may be evident in areas such as food, fashion, and entertainment, where offerings reflect cultural heritage and values.

Additionally, cultural attitudes toward ethics and sustainability have given rise to ethical consumerism, where individuals prioritize products based on their environmental impact, labor practices, and overall corporate responsibility. As a result, companies are increasingly compelled to adopt sustainable practices to align with consumer expectations. Furthermore, political stability often correlates with social cohesion and harmony within a society. In stable political environments, individuals are more inclined to cooperate, engage in civic activities, and contribute to the well-being of their communities. This sense of social cohesion fosters a positive consumer culture characterized by trust, reciprocity, and collective action, which may influence purchasing decisions and consumption patterns.

Behavioral Changes in Commerce: Political instability can also change the way consumers participate in commerce. In uncertain periods, there may be a noticeable shift toward online shopping as consumers seek the convenience and safety of digital transactions. Concerns about going out during protests, strikes, or any kind of unrest can result in extended use of e-commerce or social media platforms. In developing countries where political unrest, terrorist activities are prevalent, online shopping is gaining traction due to safety considerations (Predmore, Rovenpor, Manduley, & Radin, 2007). Worries about personal security may lead consumers to avoid public transportation, crowded retail areas, and other public venues to ensure their physical safety.

These security concerns can alter market dynamics, giving rise to new consumption trends and industries or emphasizing sustainability that shapes long-term consumer behaviors. Consumers may show a preference for local products to reduce dependency on imports that could be affected by political factors, which in turn can help strengthen local economies. Prolonged periods of instability can lead to enduring shifts in consumer behavior, with individuals adapting to budget more carefully and spend more conservatively even after the crisis has subsided.

Long-term Economic Changes: As time goes on, political instability can alter market dynamics, resulting in new consumption patterns, the advent of emerging industries, and a focus on sustainability that influences consumer behavior in the long term. Domestic unrest, ineffective governance, and unclear policies can discourage foreign investment, causing job losses and economic downturns. As a result, consumers may adjust their spending habits in response to reduced income levels.

The interplay between politics and consumer behavior is complex and multi-dimensional, reflecting a dynamic relationship that is shaped by various social, economic, and cultural factors. Understanding consumer behavior goes beyond mere purchasing patterns; it encompasses the motivations, emotions, and external influences that drive individuals to make decisions in a constantly changing environment. As consumers navigate their needs and wants, they are influenced not only by psychological and personal factors but also by the socio-cultural context and political landscape in which they operate.

Political stability, for instance, fosters consumer confidence and encourages spending, as individuals feel secure in their environment. In contrast, political instability can lead to caution, reducing economic activity and affecting consumer behavior. In times of uncertainty, consumers may prioritize essential needs, savings, and cautious financial practices, often favoring local products, increasing online shopping, and seeking more secure investments. These shifts can also result in long-term changes in consumption patterns and investment strategies, as frugality and adaptability take precedence.

Furthermore, the rise of ethical consumerism exemplifies how political ideologies and social movements can reshape consumer preferences. As political climates evolve and social movements gain traction, consumers increasingly demand sustainability and corporate responsibility, prompting businesses to adapt to these shifting values. This dynamic highlights the significance of recognizing how politics and consumer behavior interact to influence market trends.

Ultimately, businesses must remain attuned to these changes to thrive in a competitive landscape. By recognizing the interconnectedness of political climates, social movements, and consumer preferences, stakeholders can better anticipate trends, foster positive consumer experiences, and contribute to a resilient and informed

marketplace. In times of political instability, adapting to evolving consumer behavior is crucial for long-term resilience and growth.

2.5. How Political Instability Affects Market Dynamics

Political instability and uncertainties can profoundly disrupt consumer markets. The puzzles arising from political entities and their policies can undermine business confidence and the marketplace, ultimately hindering overall economic activity. Political inefficiency can lead to social unrest, corruption, inequality, and various other malfunctions that negatively affect the consumer market (Ari & Veiga, 2011). Sectors such as tourism, the stock market, finance, foreign investments, and currency values are particularly susceptible and tend to react swiftly to any inconsistencies stemming from political uncertainty or mismanagement.

Here are several ways in which political insecurities can disrupt consumer markets.

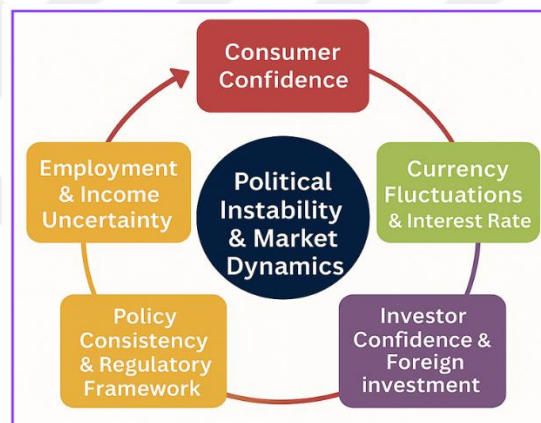


Figure 2.5: Political Instability & Domestic Market Dynamics

Source: Developed for This Study Using MS Word

Consumer Confidence: Political insecurities often lead to a decline in consumer confidence. When individuals are uncertain about the political landscape, they tend to feel less optimistic about the future, prompting them accumulating for the future expense rather than spending now. This diminished confidence can lead consumers to postpone significant purchases, cut back on discretionary expenses, and adopt a more cautious & conservative financial approach.

Consumers respond to any change or uncertain condition, in the short run, very rapidly. Economic and political transformation policies in several Eastern European countries (especially in Russia, Hungary, and Poland) reduced the purchasing power due to extensive inflation, notably affecting retired individuals (Gajecki, R, 1990), which

reshaped their consumption patterns. Factors like inflation, recession, wage controls, and the threat of unemployment have led to decreased consumption as well as savings as individuals strive to maintain their standard of living. As a result, consumers began to engage in more comparative shopping (Shama, 1992). Over time, they adapted to these challenges by increasing their resources, modifying their shopping habits and decision-making processes, and selecting different marketing strategies.

Income Uncertainty: Political inconsistency can lead to economic turmoil, resulting in job losses, wage reductions, or overall economic downturns. Frequent changes in government or a weak administration can create ineffective national policies that jeopardize both business and individual investors. In such situations, industrial production and employment are likely to decline (Ashraf & Shen, 2019); causing consumers to face income uncertainty and adopt a more cautious approach to their spending. In the 1990s, consumers in Eastern Europe and Russia encountered similar challenges (Shama, 1992). Many individuals were confronted with the threat of actual unemployment for the first time, leading to concerns about job security and future income, which in turn encouraged them to save more and reduce their discretionary expenses.

Currency Fluctuations: Political instability can significantly impact currency values. When a country undergoes political turmoil, it can erode investor confidence in its economy, resulting in a decrease in foreign investment and a sell-off of its currency. This situation can result in increased volatility and depreciation of the national currency. Sudden changes in foreign currency rates can affect import prices, leading to inflation. (Paldam, 1987).

Marshall's Law of currency depreciation, which states that a rise in import costs for domestic consumers occurs following a depreciation, has been validated in this context (Raza, Larik, & Tariq, 2013). Several South Asian nations have faced trade deficits due to currency devaluations since the 1970s. When the local currency loses value, the cost of imported goods tends to increase, impacting consumer purchasing power and leading to higher prices for a broad range of products (Imimole & Enoma, 2011). Conversely, if political conditions stabilize, it can help restore investor confidence and strengthen the currency as investors return. Consequently, the consumer market gets a pace to equalize the local demand. Overall, the relationship between political stability

and currency value is closely intertwined, with fluctuations in one often influencing the other.

Interest Rates and Borrowing Costs: Political instability has a positive impact on national debt (Ozler, 1991); with increased political uncertainty correlating with higher levels of national debt. Such instability can profoundly affect interest rates, currency values, and ultimately borrowing costs. A fragile government or the absence of effective policy often leads to market uncertainty, prompting investors to pull back their investments. The shortage in the market capital can affect monetary policy decisions, leading to either changes in the general interest rates to attract new investment, or changes in the central bank's money supply to stabilize the economy. Elevated interest rates can raise borrowing costs (Ashraf & Shen, 2019) making it challenging for consumers to secure long-term financing for significant purchases like homes, cars, or entertainments. This, in turn, can reduce consumer spending and overall economic activity, disrupt typical consumption patterns and result in decreased expenditure on dispensable goods and services.

Reduced Foreign Investment: Political instability can deteriorate investment possibility (Murad & Alshyab, 2019) as both domestic and overseas investors may delay their investment decision, adversely affecting the overall economic health of a country. Investors always prefer a sound political environment characterized by minimal policy ambiguity and reduced uncertainty regarding future income (Alesina, Ozler, Roubini, & Swagel, 1996). Reduced investment can lead to slower economic growth (Brada, Kutan, & Yigit, 2006), higher unemployment, and decreased consumer purchasing power. This cycle of reduced investment and economic stagnation can further exacerbate the challenges faced by a nation grappling with political inconsistency.

Policy Changes and Regulations: Political instability frequently results in considerable changes to policies and regulations as governments react to ongoing crises and challenges. In response to political turmoil, governments may implement various policies to tackle pressing issues, such as social upheaval or economic downturns. Consequently, in the short term, governments may engage in rent-seeking behaviors to support their financial institutions (Murphy, Shleifer, & Vishny, 1991). Inefficient economic policies by the government can lead to a heavy tax burden that badly affect the existing enterprises and hinder new initiatives (Alesina, Ozler, Roubini, & Swagel,

1996) or the implementation of unfavorable labor laws can contribute to future uncertainty for the national country.

Alterations in tax policies, trade agreements, and other regulations have a direct impact on businesses (Cukierman, Edwards, & Tabellini, 1989) and, subsequently, affect local market dynamics. As a result, consumers may alter their spending patterns in response to these changes, especially if they perceive negative impacts on their financial situation.

Tourism Industry and Pastime: Tourism is a social phenomenon and possibly a dynamic sector that influences individuals in many countries worldwide. Political uncertainties have a profound impact on the tourism industry, affecting everything from traveler sentiment to infrastructure investment. The tourism sector often reacts more swiftly to threats such as terrorism, which can arise from political unrest, compared to other political or economic factors (Ingram, Tabari, & Watthanakhomprathip, 2013).

Social or political unrest, conflicts, violent political attacks, security and safety concerns, and all other unexpected events pose significant challenges to the tourism business. These factors influence traveler behavior, investment decisions, and the overall economic health of a region, discouraging both local and foreign travelers from visiting affected areas. When a country's safety and security is threatened, the tourism industry can experience significant distortions (Larobina & Larobina, 2009). A decline in tourism can have a cascading effect not only on the tourism industry, but also on associated industries such as hospitality, transportation, and even retail sectors. This downturn can ultimately affect the overall domestic consumer market, leading to broader economic repercussions.

Political instability poses significant risks to consumer markets and overall economic health. The uncertainties and insecurities stemming from unstable political environments can erode consumer confidence, disrupt spending patterns, and lead to cautious financial behaviors. As seen in various case studies, the repercussions of such instability ripple through multiple sectors, including tourism, foreign investment, and consumer purchasing power, ultimately contributing to slower economic growth, higher unemployment, and increased inequality.

Factors such as income uncertainty, currency fluctuations, and heightened interest rates further complicate the impacts of political instability. As consumers navigate these challenges, they adapt their behaviors, shifting from discretionary spending to more conservative financing. Moreover, rapid changes in policies and regulations in response to political crises can create an unpredictable economic landscape, further exacerbating consumer anxiety. Thus, fostering a stable political environment is crucial for restoring investor and consumer confidence, promoting investment, and ensuring sustainable economic growth. Ultimately, understanding the interconnectedness of political stability and economic health is essential for policymakers, businesses, and consumers alike in striving for a prosperous future.

2.6. Navigating How External Political Forces Disrupt Domestic Market Dynamics

Navigating how external political forces distort domestic market dynamics involves understanding how global and international political events influence local economies, businesses, and markets. In today’s interconnected world, socio-cultural, economic, political, and technological factors are integrated into a global context where external political forces—such as foreign government policies, trade agreements, geopolitical tensions, currency valuation, and diplomatic relations—can create ripple effects on domestic markets.

| | |
|---------------------------------|---|
| Political Factors | •Tax Rate, Trade Agreements, Policies, and Tariffs |
| Geopolitical Development | •Foreign Envation, Border Tension |
| Currency Concern | •Exchange Rate & Foreign Currency Reservation, Currency (de)valuation |
| Sociocultural Factors | •Demographic Trends, Changes in Preference, Market Diversity |
| Energy Supply | •Oil prices, Energy Production, Supply Shortages |
| Sanction & Embargoes | •Economic, Trade, & financial Restrictions, Bilateral-Multilateral Trade Agreements |

Figure 2.6: External Political Movements vs Domestic Market Dynamics

Source: Developed for This Study Using MS Word

These external political, economic, and technological factors can considerably disrupt local economies and businesses, leading to uncertainty and impacting various economic dimensions. Disruptions may arise from geopolitical events, socio-economic dominance, or global political developments, all of which can destabilize supply chains, influence investor confidence, and alter economic conditions within domestic markets. Here are several ways in which external political forces can disrupt domestic markets.

Trade Agreements, Policies, and Tariffs: International trade agreements enable domestic consumers to experience the taste of a wider variety of exotic products (Broda & Weinstein, 2006). However, the presence of tariffs, trade barriers, or political disputes can influence the availability of foreign goods in the domestic market. (Cheong, Kwak, & Tang, 2008). In addition, modifications in the trade policies of significant trading partners can have a direct impact on domestic markets. (Limão & Maggi, 2004). Certain trade policies can disrupt established supply chains, increase the cost of imported goods, and affect the competitiveness of domestic industries. Additionally, business entities may struggle to adjust to new trade conditions, which can lead to market volatility.

International trade policy is closely tied to national political stability. International agreements & treaties can be terminated, or alliances can be altered due to irrational political decisions. Alterations in trade agreements or other critical areas such as defense can influence economic relationships between nations, ultimately affecting both local businesses and individual consumption patterns.

Global Political Events: Domestic economic performance is closely interconnected with geopolitical events. The increasing frequency and spread of economic crises caused by external political entities can be attributed to globalization. Although the exact causes of these crises may not always be clear, their effects are being felt in various parts of the world.

The global economy experienced its most severe financial downturn since the Great Depression, intensified by sharp fluctuations in local commodity prices, a drop in export levels, contracting investment portfolios, reduced foreign direct investment (FDI), and declining equity markets (Adamu, 2009). In the aftermath of the post-war period, the crisis extended throughout the credit markets of advanced economies,

notably the United States, the United Kingdom, and Europe. This financial turbulence had a profound effect on global economic activity, weakening both consumer and business confidence and ultimately hindering overall economic performance worldwide (Edey, 2009).

The global economic crisis, often termed the US meltdown, began in the United States during 2001-2002. Over time, it expanded and ultimately impacted the entire world. As a result, economic hardships place significant stress on households, regardless of the country or region experiencing the crisis.

Exchange Rates Regimes: Currency plays an essential role in facilitating the exchange of goods and services, supporting international trade through investments, the movement of products and services, and various financial transactions. Similar to other political events, currency significantly shapes the global trade landscape. Countries often manipulate their currency value to gain a competitive advantage over foreign rivals (Gagnon, 2012).

External political forces can also influence local currency exchange rates (Goldstein, 2006), affecting the competitiveness of domestic exports and the cost of imported goods (Goldberg & Tille, 2008). Sudden fluctuations in exchange rates create uncertainties for businesses engaged in international trade, potentially altering consumer preferences, driving inflation, and impacting overall market stability. When currency devaluation occurs, the prices of foreign products rise, making it more difficult for individuals to afford imported goods.

Investor Confidence and Security Concern: External political forces, similar to the influence of national governments, can shape the confidence of both corporate and individual investors in a domestic market (Lu, Wang, & Xu, 2023). Factors such as geopolitical tensions, political inconsistency (Xiaolu, Jieji, & Jian, 2016), conflicts and broader global economic conditions can lead to a loss of investor confidence, foster idle money, trigger capital outflows, decline stock market performance (Shahid, 2015), and reduce FDI levels.

In the digital arena cybersecurity risks and expedition on vital infrastructure might result from political unrest. These disruptions can affect domestic markets, enterprises, financial institutions, and even day-to-day living; ultimately undermining consumer confidence and the overall economic environment.

Energy Prices and Supply Disruptions: Energy is a key driving force of the industrial economy; with the production of goods and their distribution relying heavily on energy resources. Political emergence in major oil-producing regions can impact global energy markets (LaBelle, 2023) and conflicts in these areas may disrupt international energy supply chains. Geopolitical events that cause fluctuations in oil prices, energy production, and supply can directly impact domestic energy costs and affect industries that rely on energy resources, thereby influencing consumer consumption patterns. Business institutions may face challenges in sourcing raw materials, components, or finished goods, leading to supply shortages, increased production costs, and disruptions in domestic markets. Costantini & Gracceva (2004) mentioned that previous oil crises have led to rising inflation, imbalances in trade and payments, higher unemployment rates, and a decline in both business and consumer confidence.

Sanctions and Embargoes: Sanctions have become a widely practiced tool in international relations, especially since World War II, offering an alternative to military conflict by imposing economic, trade, and financial restrictions. Single-eyed redressing in the bilateral or multilateral trade agreements can have significant financial consequences for the counterparts (Kaempfer & Lowenberg, 2007), severely and negatively impact domestic businesses (Caruso, 2003).

Restrictions on trade, financial transactions, or access to certain markets create challenges for companies operating in the sanctioned regions, leading to market instability and financial losses (Besedeš, Goldbach, & Nitsch, 2017). Sanctions or trade barriers affect the purchasing cost, disrupt the supply chain, and increase overall expenses, whereas trade agreements can open up opportunities for foreign products (Baier & Bergstrand, 2007). For instance, recent sanctions by the European Union on Russia, along with Russia's countermeasures, have reduced the consumption of affected goods in both regions, leading to a direct impact on global macroeconomic performance.

The influence of external political forces on domestic markets, as illustrated through the cases of Türkiye and Bangladesh, underscores the multifaceted nature of economic interactions in our interconnected world. Political dynamics, including international trade agreements, global economic conditions, exchange rate fluctuations, investor confidence, energy supply disruptions, and the imposition of sanctions, play critical roles in shaping domestic economic landscapes.

International trade policies and agreements can either enhance the availability of diverse products or impose barriers that traditional supply chains directly influencing local markets. Similarly, global economic conditions, such as financial crises, can lead to widespread repercussions that affect domestic consumption patterns and business operations. Exchange rates, manipulated by external political forces, can alter competitive dynamics in trade, influencing both imports and exports. Furthermore, external political tensions can undermine investor confidence, triggering capital outflows and a decline in foreign direct investment, ultimately hindering economic growth. Disruptions in energy supply, often a consequence of geopolitical, can have effects on production costs and consumer behavior.

Finally, the implementation of sanctions and embargoes can create severe constraints on trade and economic performance, further emphasizing the vulnerabilities that domestic face in the context of global politics. Overall, the interplay between external political forces and domestic market stability highlights the necessity for countries to navigate complex geopolitical landscapes carefully. Policymakers must incorporate strategies that promote resilience in their economies while fostering international cooperation to mitigate the adverse effects of external disruptions. Understanding these dynamics is crucial for businesses and consumers alike, as they adapt to the ever-evolving landscape shaped by political interactions on a global scale.

CHAPTER III

METHODOLOGY

3.1. The Research Design

This study adopts a quantitative research approach, focusing on collecting and analyzing numerical data to explore the relationship between political instability and consumer behavior. Quantitative research enables empirical analysis by applying mathematical and statistical tools to explain and test theories. As described by Kothari (2004) and Creswell (1994), quantitative research involves the measurement of variables and the use of statistical techniques to verify hypotheses.

Hypothesis testing is conducted using the Statistical Package for Social Sciences (SPSS) & SmartPLS4, allowing the study to examine variables such as political instability, government effectiveness, national unemployment rate, current account balance, and GDP per capita. These are analyzed in relation to consumer behavior indicators like consumer confidence, consumption habits, and saving tendencies.

3.2. The Research Setting

This study was initiated during a politically sensitive period, with parliamentary elections approaching in both Türkiye and Bangladesh. During this time, national newspapers frequently reflected public concerns regarding rising household expenses and business anxiety over economic performance. Within this context, the research investigates how political inconsistency—manifested through fragile government structures, frequent cabinet reshuffles, and erratic policy-making—can influence individual consumer behavior.

3.3. The Sample of the Research

Although consumer behavior cannot be captured through a single metric, this study focuses on key political and economic variables that potentially affect national consumption patterns. Here I intended to observe whether political factors such as political instability, government effectiveness, account balance or current account deficit (per capita), national unemployment, and GDP (per capita) income have any impact on consumer behavior such as national consumption expenditure (per capita), consumer saving (per capita), and consumer confidence. Just to make it more

elaborate, I have limited my samples to two specific countries: Türkiye and Bangladesh with the time span of 1991-2024.

3.4. Data Collection

The information presented in this research has been gathered from secondary sources. Secondary data refers to information that is not collected firsthand but instead obtained from various open sources. This approach provides a time-efficient and convenient way to access relevant information (Boslaugh, 2007).

While primary data collection would have enhanced the depth of the study, it was not feasible due to current global disruptions. These include the ongoing impact of the COVID-19 pandemic, the economic fallout from the Russia-Ukraine war, Türkiye's economic difficulties tied to its Middle East engagements, and Bangladesh's internal financial mismanagement exacerbated by corruption and policy realignments in response to geopolitical shifts.

Given these dynamic and uncertain conditions, I have chosen to use a Time Series data application for this research. Most of the data has been sourced from the World Bank Dataset, with additional information obtained from Türkiye İstatistik Kurumu (TÜİK), The Global Economy, the OECD Library, and other relevant datasets.

3.5. An overview of the Data Analysis

To examine the relationship between political conditions and consumer behavior, this study employs Time Series Analysis, which is well-suited for observing variable trends over the selected 34-year period (1991–2024). This approach allows the study to capture long-term patterns and fluctuations in both political and economic indicators across Türkiye and Bangladesh.

Statistical techniques have been applied using SPSS to analyze correlations and test the hypotheses. Additionally, SmartPLS4 is used for Multivariable Regression Analysis to evaluate the influence of political variables on consumer behavior. All tests were conducted using a 95% confidence interval and a t-test, ensuring robust statistical reliability.

To provide a comprehensive understanding, the analysis is structured into three stages. In this initial stage, descriptive statistics are presented to summarize and visualize the data. This includes trend analysis and a comparative overview of key variables

between Türkiye and Bangladesh, illustrating the general behavior of political and economic indicators over time. The middle stage involves the development of correlation matrices to determine the strength and direction of the relationships among variables. The analysis reveals whether political and macroeconomic factors are statistically associated with changes in consumer behavior.

The final stage involves conducting multivariate regression analysis using SmartPLS4. This method is employed to assess whether political factors significantly affect consumer behavior. The analysis tests the formulated hypotheses and identifies the extent to which each independent variable influences consumer-related outcomes.

The following regression model is used to quantify the relationship between political factors and consumer behavior:

$$Y=a+bX_i+\varepsilon$$

- **Dependent Variable (Y):**
 - Consumer Expenditure (PC)
 - Consumer Savings (PC)
 - Consumer Confidence

- **Independent Variables (X_i):**
 - Political Instability
 - Government Effectiveness
 - Current Account Balance (PC)
 - GDP (PC)
 - Unemployment Rate

CHAPTER IV

RESULTS AND DISCUSSION

In this study, I have chosen several political and economic indicators to examine their potential influence on consumer behavior, especially on consumption & savings patterns in Türkiye and Bangladesh. The selected indicators include the political stability index, government effectiveness, unemployment rate, GDP per capita based on 2015 constant value, and current account balance. These variables will serve as independent factors to assess their significant impact on consumer behavior, specifically national consumption expenditure, consumer savings, and consumer confidence. A preview has been offered to better understand the variables.

4.1. Descriptive Representation

4.1.1. Political Stability & Government Effectiveness

Political stability and government effectiveness are fundamental indicators used to evaluate the quality of governance in a country. Stability refers to the durability and consistency of the government, while effectiveness pertains to the strength, transparency and accountability of its operations. Political stability signifies the reliability and predictability of a nation's political system, including the strength of its institutions (Hurwitz, 1973), governance structures, and the functionality of its legal and regulatory frameworks (Ake, 1975). A stable political environment is crucial for fostering economic growth (Cervantes & Villaseñor, 2015), (Chletsos & Sintos, 2024), attracting new investment (Jannils, 2021), and ensuring societal well-being (Meo, 2017).

Government effectiveness, on the other hand, assesses the quality of public services (Kaufmann, Kraay, & Mastruzzi, 2010), the level of trust in the government, and its ability to develop and execute effective policies. It measures how well a government translates political stability into actions that benefit the population (Helliwell, Huang, Grover, & Wang, 2014). While political stability provides the groundwork for a secure and predictable environment, government effectiveness ensures that this foundation is leveraged to deliver tangible results. Together, these factors are crucial for long-term national development and play a pivotal role in shaping a nation's social, institutional, and economic progress, as well as its ability to fulfill the needs of its people.

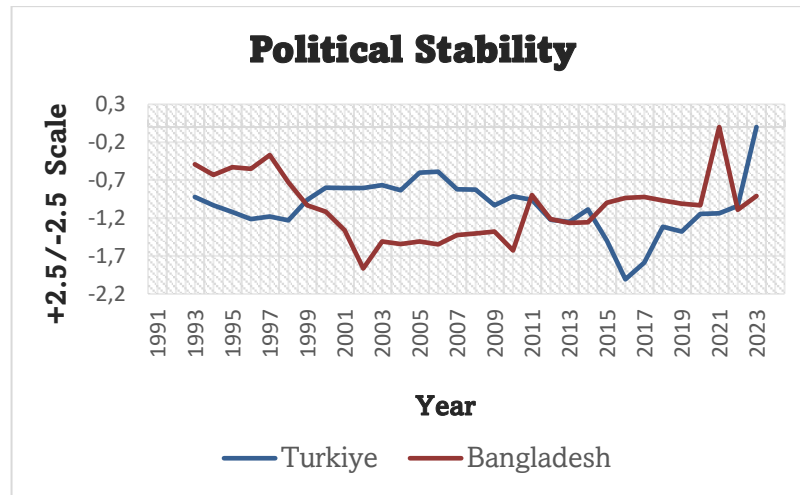


Figure 4.1: Political Stability in Türkiye vs Bangladesh

Source: Developed for This Study Using MS Excel

Türkiye along with Bangladesh performs below the global averages in terms of political stability. Both consistently exhibit overall negative scores on the political stability index (range: -2.5 to +2.5), reflecting challenges in maintaining sound political environments.

Turkey experiences some fluctuations in its political stability, but it generally remains stable within the range of -0.7 to -1.2. The country has shown improvements in its political stability index since the late 20th century, and despite the global economic crisis of 2008, it did not experience a consistent decline. However, there are sharp dips around 2016 (Adisonmez & Onursal, 2021), likely linked to internal political turmoil (Ataman, 2016). Since the beginning of the 21st century, Turkey's political environment has been influenced by its involvement in regional politics (Coşkun & Ülgen, 2022), internal conflicts with terrorist organizations (Bertelsmann Stiftung, 2024), and the appearance of strong nationalism among various political parties.

Whereas Bangladesh exhibits a steeper decline from 1995 to 2002, followed by a gradual recovery post-2010, peaking in 2021 (Haqqani, 2024). Bangladesh's political landscape is characterized by shifting national identities, fragile institutional development, lack of political accountability, absence of responsible opposition, and deteriorated law and order situation, often necessitating military involvement in civilian affairs (Datta, 2003). Türkiye's political stability is generally better maintained, with fewer drastic dips than Bangladesh. However, Bangladesh's upward recovery post-2010 indicates efforts to address political volatility.

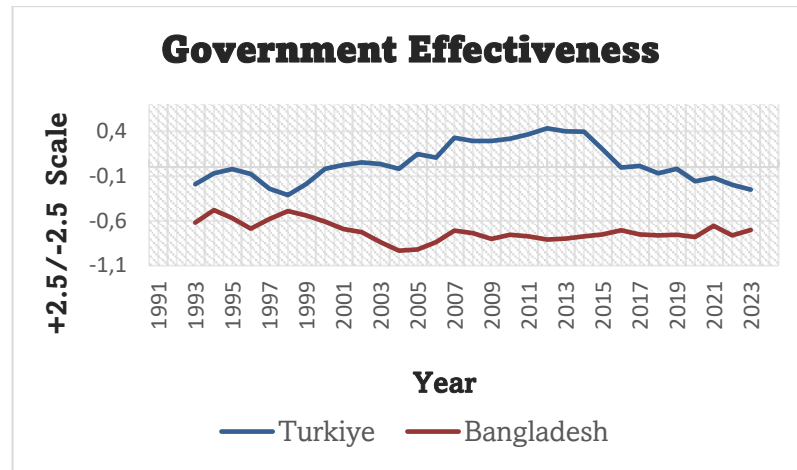


Figure 4.2: Government Effectiveness in Türkiye vs Bangladesh

Source: Developed for This Study Using MS Excel

Türkiye consistently outperforms Bangladesh on the government effectiveness scale. Its scores fluctuate between -0.2 and +0.3, peaking around 2012, which aligns with reforms or growth periods. However, a gradual decline occurred in 2014 and afterwards. On the other side, Bangladesh shows sustained challenges with scores averaging -0.5 to -0.8, reflecting inefficiencies in governance (Roy, 2005) or public service delivery (Khan M. M., 2003). Instead of gradual policy implementations, Bangladesh remains lower than those of Türkiye. Compared to Bangladesh, Türkiye's governance infrastructure appears stronger and more efficient over the analyzed period (Gül & Kiriş, 2014) but still not well of in global context (Yasamis, 2003). In contrast, Bangladesh struggles with foundational government services and effective policy execution, despite modest gains in recent years.

Turkey experiences greater volatility in political stability (Polat, 2020), with fluctuating scores over time, while its government effectiveness is slightly higher but not markedly better. Bangladesh's scores are lower but show steady improvements in governance and stability. This indicates that although both countries face political risks, Turkey's volatility may pose a more significant barrier to long-term developments (Çalışkan, 2019) than Bangladesh's more gradual improvements.

In the post-2000 period, Turkey implemented a major reform initiative in public management, factoring in the impact of the European Union accession process and addressing the key challenges the country could face in the future. These reforms included administrative and financial changes, reducing the size of the state, cutting bureaucracy, fostering competition, applying private sector practices, and enhancing

localization. The Public Financial Management framework was developed, and a new approach to management was introduced (Demir, 2021). In contrast, Bangladesh continues to struggle with challenges in democracy and governance, including violence, corruption, outdated laws, human rights abuses, lack of rule of law, lack of accountability, and extensive politicization of government institutions, including the judiciary system (Hossen & Anwar, 2011).

Bangladesh needs strong political leadership committed to combating deep-rooted corruption, lack of accountability, and inefficiency to establish good governance and ensure sustainable development. Both countries must address internal and external challenges, implement comprehensive state-wide reforms based on modern public management principles, improve governance conditions, and reinstate and strengthen the meritocratic principle in the public sector.

4.1.2. Consumption Expenditure

Consumer spending or consumption expenditure represents the total value of goods and services purchased by households for personal use and enjoyment within an economy. Modern evaluations of consumer spending include all private expenditures on both durable and nondurable goods and services and are often considered as a counterpart to saving investment, and economic production. As a key economic indicator, consumer spending reflects the financial health of a country and plays a major role in its GDP. The chart below provides a comparison of Türkiye’s and Bangladesh’s household final consumption expenditure per capita in the current US dollar over the period from 1991 to 2024.

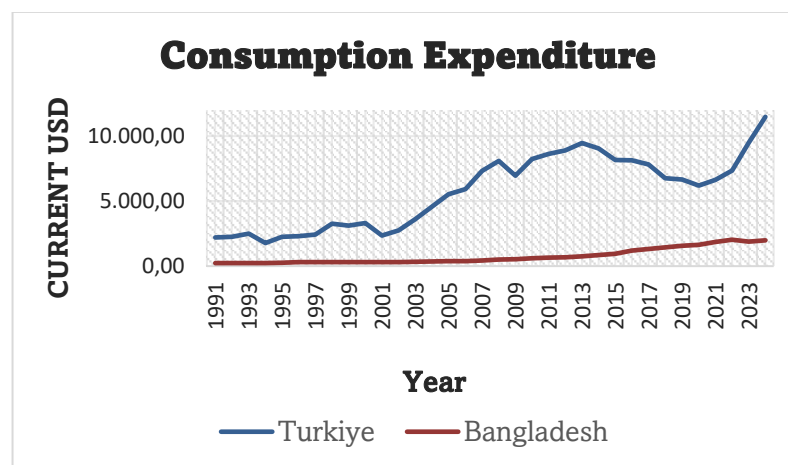


Figure 4.3: Consumer Expenditure in Türkiye vs Bangladesh

Source: Developed for This Study Using MS Excel

The graph illustrates the trend of consumption expenditure in Türkiye and Bangladesh from 1991 to 2024. Turkish consumption pattern illustrates a steady rise in consumption expenditure over time, with significant acceleration after 2001. It may result of the financial reforms carried out by central government at that time (Turhan, 2008). Türkiye exhibits a significantly higher level of consumption expenditure compared to Bangladesh throughout the period. Its consumption expenditure shows a general upward trend, with notable fluctuations, particularly around the 2008 global financial crisis and the subsequent years. After a peak in the mid-2010s, a slight decline is observed, followed by a recovery towards 2021.

Conversely, Bangladesh demonstrates a steady but gradual increase in consumption expenditure, with a relatively stable growth pattern. Although the absolute values remain lower than that of Türkiye, the consistent upward trajectory in Bangladesh indicates progressive economic expansion and rising consumer spending. The stark contrast in the consumption expenditure levels of the two countries reflects differences in economic size, development status, and consumption behavior.

Throughout the period, Türkiye's consumption expenditure is 3–5 times higher than that of Bangladesh. Türkiye's faster and more substantial growth can be attributed to factors like a larger economy, higher income levels, increasing housing wealth, national & external investments, industrialization, (Acar & Gultekin-Karakas, 2016), (Altug & Zenginbuz, 2009) fiscal policy & government incentives and so forth. Meanwhile, Bangladesh shows steady but modest increases, likely driven by population growth, apparel exports, foreign remittance, and gradual economic reforms (Mahmud, Ahmed, & Mahajan, 2010).

Changes in consumer expenditure provide insights into shifts in living standards, income levels, and overall economic health. Türkiye's significantly higher consumption reflects its advanced economy, higher GDP per capita, and superior living standards, supported by a larger economic scale and greater disposable income. On the other hand, while starting from a much lower base, Bangladesh demonstrates lower but consistent growth in consumption expenditure. This upward trend aligns with increasing income levels and improving living standards, driven by the country's robust economic progress.

Although Bangladesh is moving toward a more consumption-driven growth model, Türkiye maintains a substantial lead, especially in terms of per capita expenditure. This highlights the developmental gap between the two countries, even as Bangladesh makes significant progress in narrowing it.

4.1.3. Consumer Savings

Consumer savings, also known as household savings, refers to the portion of household income that is set aside for future use rather than being spent on current consumption. It is determined by subtracting consumption expenditure from the whole disposable income. This concept primarily reflects the spending and saving habits of individual households, which, like consumer expenditure, are largely influenced by factors such as income level, inflation rate, interest rates, and overall economic confidence. The chart, here, compares Consumer Savings per capita in Türkiye and Bangladesh from 1991 to 2024. Here's a detailed analysis.

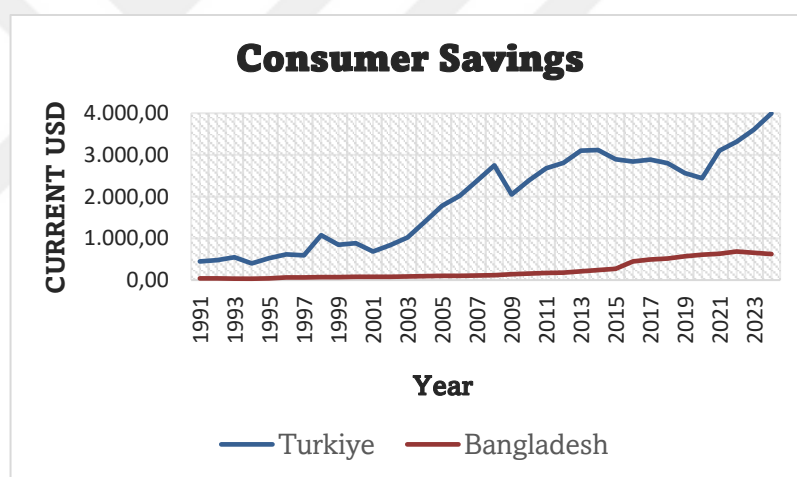


Figure 4.4: Consumer Savings in Türkiye vs Bangladesh

Source: Developed for This Study Using MS Excel

From 1994 to 2013, Türkiye’s consumer savings showed consistent growth, followed by considerable fluctuations due to the global economic crisis that began in 2008. After 2014, savings slowly declined but later abruptly surged, reaching around 400 billion USD by 2024. In contrast, Bangladesh's consumer savings grew at a slower but steady pace over the years. Starting in 2015, the growth rate accelerated slightly, with savings surpassing 50 billion USD in the early 2010s and continuing to rise, exceeding 100 billion USD by 2022.

Between 2004 and 2007, Türkiye experienced a notable increase in savings, which may indicate economic stability or rising disposable income, possibly driven by economic reforms or favorable conditions (Barış, 2016). However, a slight decline occurred after 2008, possibly due to the global financial crisis (Aksoy, 2015), before savings rebounded sharply in the short term. Bangladesh, on the other hand, has seen a steady increase in savings, reflecting its economic growth and improving living standards. While its savings growth is slower than Türkiye's, this highlights Bangladesh's relatively lower income levels and savings potential.

The savings trends in both countries reflect their distinct economic structures. By 2021, Türkiye's savings were nearly three times higher than that of Bangladesh, illustrating significant disparities in development and income levels between the two nations. Türkiye's higher savings can be attributed to its more advanced economy, higher income levels, and an advanced financial system (Altug & Zenginbuz, 2009) that offers better investment and return opportunities. In contrast, Bangladesh's gradual growth in savings is driven by factors such as increased financial inclusion (Khan & Sarker, 2016), financial liberalization (Islam & Dooty, 2014), income uncertainty, interest rates (Rakib, 2024), and the expansion of a growing middle class. Bangladesh's upward trajectory signals its ongoing economic development and efforts to improve financial stability. Despite Bangladesh's progress, Türkiye's much larger savings base underscores its more mature financial sector.

4.1.4. Consumer Confidence

Consumer Confidence refers to the satisfaction of the consumer with the current economic status and future economic possibilities. It is used to measure the degree of optimism that consumers feel about their personal financial situation, providing an overall overview of the economic health (the CFI, 2024).

Consumer Confidence is an important indicator that is used to predict consumption behavior considering factors such as the overall economic environment, employment rates, and savings possibility. Increased consumer confidence indicates economic growth as people are more likely to increase their spending, leading to greater consumption. Decline in consumer confidence, on the other hand, demonstrates slowing economic activity; therefore, potential consumption tends to decrease. Essentially, the more secure people feel about the economy, their jobs, and their

incomes, the more inclined they are to spend. A downturn in consumer confidence may signal potential economic challenges ahead.

The following chart, titled Consumer Confidence, compares trends for Türkiye and Bangladesh over the years 1995–2021, using a benchmark of 100. The benchmark of 100 is a neutral point. Values above 100 signify optimism, while those below indicates pessimism. Here's a detailed analysis:

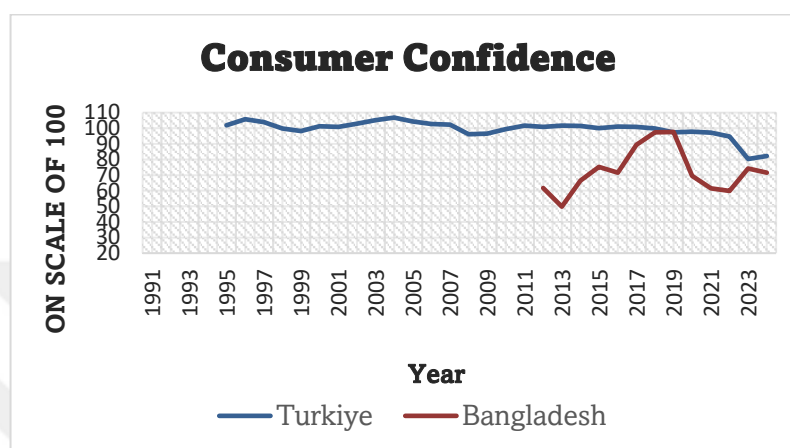


Figure 4.5: Consumer Confidence in Türkiye vs Bangladesh

Source: Developed for This Study Using MS Excel

Consumer confidence in Türkiye has remained stable throughout the observed period, fluctuating slightly between 90 and 110, which is close to or above the benchmark, indicating steady and resilient economic sentiment. This stability reflects strong consumer confidence in the country during the timeframe. Minor dips, such as those in 2009 and 2021, may correspond to global events like the financial crisis and the COVID-19 pandemic. In contrast, Bangladesh demonstrates significant volatility, with confidence levels sharply declining in 2011, recovering to above 80 by 2015, and then dipping again before partially rebounding by 2021. These fluctuations suggest economic instability, likely driven by structural changes, trade challenges, policy shifts, or external shocks like global trade disruptions. However, no data is available for Bangladesh before 2010 due to limitations in data collection.

Türkiye demonstrates consistently high levels of consumer confidence with only minor fluctuations, reflecting its relative economic stability and resilience to global or regional disruptions. This steady consumer sentiment highlights the country's ability to maintain economic balance. In contrast, Bangladesh exhibits significant swings in consumer confidence, indicating greater vulnerability to internal as well as external

shocks. This volatility may stem from factors such as currency devaluation, heavy reliance on exports, or political instability. Türkiye's stable consumer confidence likely promotes consistent consumption patterns, supporting sustained economic growth. Meanwhile, Bangladesh's fluctuating confidence suggests unpredictable consumer behavior, which could impact economic stability. Overall, Türkiye's stability underscores stronger economic resilience, while Bangladesh's volatility highlights the need for strategies to mitigate uncertainty and build sustained consumer trust.

4.1.5. Unemployment Rate

The unemployment rate represents the proportion of individuals in the national labor force who are not employed but are actively looking for work. It serves as an important indicator of a nation's economic health and labor market condition. A high unemployment rate often leads to economic challenges, while a low rate typically indicates higher production, consequently, a strong economy. This rate plays a critical role in shaping fiscal and monetary policies aimed at boosting employment or managing inflation (Anghel, Anghelache, & Manole, 2017). Long-term unemployment can have detrimental effects on society, contributing to higher poverty levels and less consumption expenditure. Here, the chart depicts the unemployment trends in Türkiye and Bangladesh, measured as a percentage of the labor force.

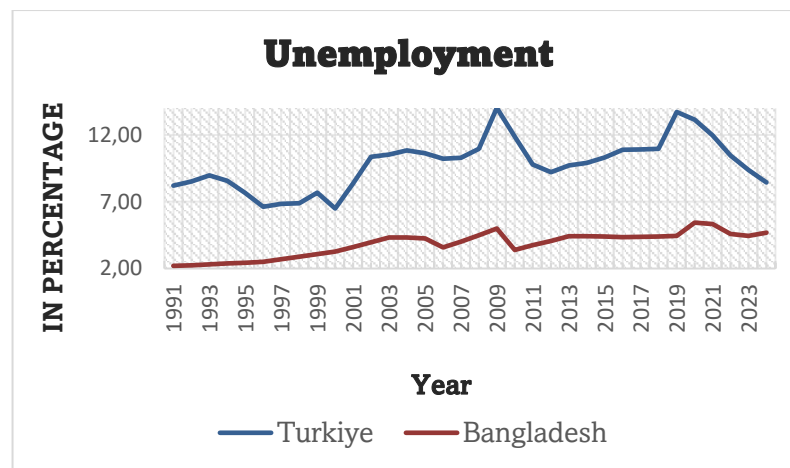


Figure 4.6: Unemployment Rate in Türkiye vs Bangladesh

Source: Developed for This Study Using MS Excel

Türkiye's unemployment rate demonstrates significant variability over time, ranging from 7% to 14%, with sharp increases observed in 2002, 2009, and 2019, often linked to national or global economic crises (Uygun, 2010). In contrast, Bangladesh's unemployment rate is much lower but more stable, fluctuating between 3% and 5%.

While it showed a gradual rise until 2005, it remained largely consistent with minimal variation thereafter.

The 2002 spike in Türkiye's unemployment aligns with its domestic financial crisis (Köse & Durusoy, 2010), while the sharp increase in 2009 reflects the global financial crisis of 2008 (Aytaç, Rankin, & İbikoğlu, 2015), peaking at nearly 13%. Similarly, the rise in 2020 is likely due to the economic disruptions caused by the COVID-19 pandemic (Kucukefe & Kanlı, 2023). On the other hand, Bangladesh's steady and low unemployment rates indicate a relatively stable labor market, though this may also mask issues like underemployment or a high reliance on informal employment, common in developing economies. Unlike Türkiye, Bangladesh experienced no significant unemployment spikes, even during global economic shocks. By 2021, Bangladesh's unemployment rate remained steady at approximately 4%, underscoring its consistent employment levels.

Türkiye's unemployment rate is consistently higher than that of Bangladesh, often 2–3 times greater, due to structural inefficiencies in its labor market. Factors contributing to this include greater female labor force participation (Gürsel, Uysal, & Delibaşı, 2020), a significant influx of immigrants over the past decades (Carpio & Wagner, 2015), (Aksu, Erzan, & Kırdar, 2022), a larger number of unemployed graduates, extensive inflation along with higher interest rate in Türkiye (Yüksel & Adalı, 2017) compared to Bangladesh. In contrast, Bangladesh maintains a lower and more stable unemployment rate, supported by its reliance on labor-intensive industries like textiles and a robust agricultural sector. The flow of human capital (Nath & Mamun, 2010) as well as demographic factors such as women's participation rate and the expansion of tertiary education, also influence employment in Bangladesh (Khatun, 2017). Moreover, natural unemployment in Bangladesh may not be fully reflected due to the lack of an effective employment management system.

The volatility in Türkiye's unemployment rate underscores its vulnerability to economic crises (Gil-Alana, Ozdemir, & Tansel, 2019) and the challenges posed by a more formalized labor market. On the other hand, Bangladesh's ability to keep unemployment low demonstrates effective workforce absorption, although issues such as underemployment and informality persist. While Türkiye requires structural reforms to address inefficiencies in its labor market, Bangladesh's stable labor market reflects its economic resilience despite ongoing issues. Ultimately, both countries need

to implement employment-focused economic policies to create more job opportunities and reduce poverty and inequality.

4.1.6. GDP Per Capita

Gross Domestic Products, defined as GDP, is the total value of goods produced, and services provided in a country during a fiscal or calendar year. GDP per capita is the result of a country's economic output divided by its outstanding population. This metric offers a general indication of citizens' economic well-being, representing average economic productivity per person, and is often used as an indicator of a country's standard of living.

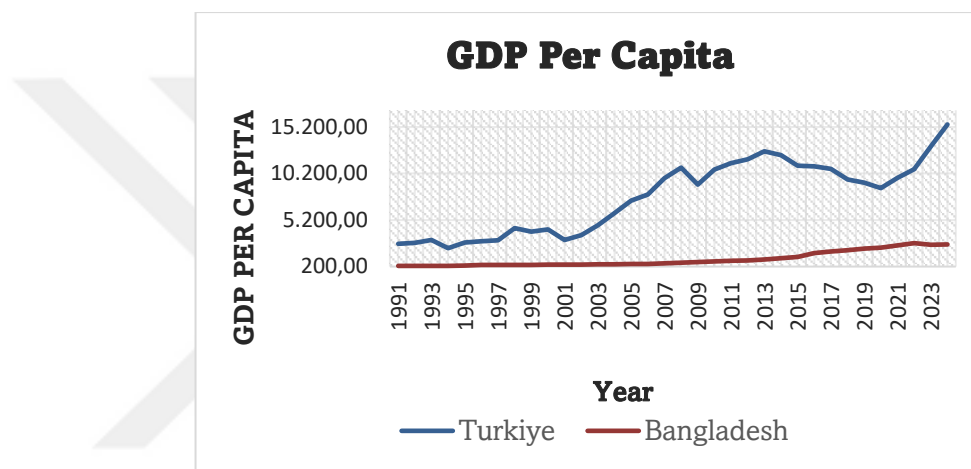


Figure 4.7: GDP Per Capita in Türkiye vs Bangladesh

Source: Developed for This Study Using MS Excel

The GDP per capita is commonly used to assess the economic health and performance of different countries, regardless of their population size. In 1991, Türkiye's GDP per capita was significantly higher than Bangladesh's, starting at approximately \$3,000 USD. Over the years, Türkiye experienced steady growth, reaching a peak of about \$15,500 USD in 2024. In contrast, Bangladesh began with a much lower GDP per capita of around \$250 USD in 1991. Although Bangladesh showed consistent growth throughout the period, its GDP per capita only increased to slightly above \$2,600 USD by 2024, remaining well below Türkiye's levels.

The gap between Türkiye and Bangladesh in terms of GDP per capita has remained substantial and consistent, with Türkiye's GDP per capita consistently exceeding Bangladesh's by more than five times. While Bangladesh's economy has demonstrated steady growth, it started from a much lower base, reflecting its status as a developing

economy with slower industrialization, technological advancements in the agricultural sector, significant investments in infrastructure (Minhaj Mahmud, a, Sawada, & Yamada, 2018), and capital accumulation. In contrast, Türkiye's higher GDP per capita reflects its more industrialized and developed economy, driven by the construction industry (Berk & Biçen, 2017), industrialization, and a service sector that has played a pioneering role. Bazaluk, et al. (2024) identified a causal relationship between GDP growth and factors such as population growth, literacy rate, natural resource utilization, and both domestic and foreign investment. Additionally, Türkiye's deeper integration into international markets has made it more susceptible to global economic shocks, such as the 2008–2009 financial crisis. Despite these challenges, Türkiye's overall economic trajectory has remained positive.

As a middle-income, more developed economy, Türkiye continues to maintain a significantly higher GDP per capita than Bangladesh. However, its growth rate has slowed in recent years, signaling a stage of economic maturation. Meanwhile, Bangladesh, despite starting from a much lower level, has experienced rapid GDP per capita growth, driven by industrialization and export-led development. This suggests that Bangladesh can narrow the gap with Türkiye, though at a modest pace given the disparity in their starting points. Policymakers and stakeholders in both countries should draw valuable insights from these trends, pursue large-scale collaborations, and focus on long-term financial development. By fostering authoritative reforms and promoting a combination of public and private sector initiatives, both countries can work toward sustainable economic development.

4.1.7. Current Account Balance

A current account balance refers to the net value of a country's trade in goods and services, net earnings on cross-border investments, and net transfer payments over a certain period, typically a quarter or a year. It is one of the components of a country's balance of payments and is a crucial indicator of its economic health. A positive current account balance indicates that a country exports more goods, services, and capital than it imports, often signaling a strong competitive position. Whereas a negative current account balance suggests that a country imports more than it exports, which may indicate heavy reliance on foreign capital or consumption.

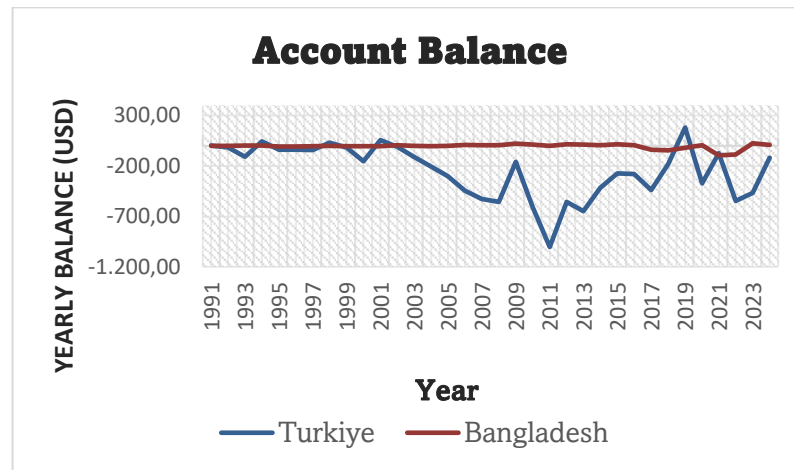


Figure 4.8: Current Account Balance for Türkiye vs Bangladesh

Source: Developed for This Study Using MS Excel

Türkiye's account balance per capita has shown considerable volatility over the years, marked by frequent and substantial deficits. Starting near equilibrium in 1995, the deficit expanded significantly, peaking around 2011 at approximately \$1,000. In contrast, Bangladesh's account balance remained relatively stable, mostly in surplus, from 1995 until about 2019. This stability was largely driven by strong remittance inflows and export revenues, particularly from its garment industry.

After 2019, Bangladesh's account balance per capita began to decline, entering a deficit by 2021. This shift could be attributed to rising import levels, declining remittances, or global challenges such as the COVID-19 pandemic. Despite occasional improvements, Türkiye's account balance remained predominantly negative throughout the period, reflecting a reliance on external borrowing, persistent trade deficits, and high import levels.

Türkiye's account balance demonstrates much greater volatility than Bangladesh's, underscoring its susceptibility to external shocks and dependency on foreign capital. Meanwhile, Bangladesh's relatively steady and positive account balance for much of the timeline indicates a more conservative economic approach, although the recent deficits suggest potential emerging challenges.

Persistent deficits, as seen in Türkiye, often signal a reliance on external financing to drive economic growth, increasing vulnerability to currency crises and fluctuations in

investor sentiment. The sharp swings in Türkiye's account balance highlight its exposure to global financial markets and reliance on energy imports. On the other hand, Bangladesh's historical surpluses point to the effective use of remittance inflows and export-led strategies. However, the transition to a deficit could reflect growing pressures from industrialization, rising imports, or infrastructure development.

A country's account balance is a critical indicator of its economic standing in the global market. Persistent deficits, like those in Türkiye, can lead to debt accumulation and risks of currency devaluation. Meanwhile, surpluses, such as those historically observed in Bangladesh, provide economic stability but can mask vulnerabilities if overly dependent on limited sectors like remittances or a single export category. Türkiye's account deficits reflect trade imbalances and external financing needs, making its economy more exposed to global fluctuations. Conversely, Bangladesh's stable account balances reflect its export-driven economy and lower import dependency, offering greater resilience to external shocks compared to Türkiye.

4.2. Variables Correlations

This section explores whether there is a significant correlation between the independent and dependent variables. Correlation is a statistical concept that measures the degree of association between two variables, indicating how they relate to one another. It helps determine the strength and direction of their relationship, providing insight into how changes in one variable might influence the other.

A correlation matrix presents correlation coefficients for multiple variables, making it easier to identify patterns and connections within a dataset. Correlation can take different forms: a positive correlation means that as one variable increases, the other also increases, while a negative correlation signifies that an increase in one variable corresponds to a decrease in the other. If no correlation exists, there is no identifiable relationship between the two variables.

Additionally, correlations can be classified based on their strength. A perfect correlation occurs when two variables move in precisely the same direction or in completely opposite directions, whereas no correlation implies no meaningful relationship. Correlations may also be strong, moderate, or weak, reflecting different levels of association between variables.

4.2.1. Türkiye

The following table presents a correlation matrix for Türkiye, showing the relationships between several economic indicators. Each cell represents the correlation coefficient between two variables, indicating the strength and direction of their relationship.

Table 4.1: Türkiye Correlation Matrix

Source: Developed for This Study Using MS Excel

| | Cons_Exp | Cons_Sav | Cons_Conf | Pol_Stab | Govt_Effc | GDP_PC | Acc_Bal |
|------------------|-----------------|-----------------|------------------|-----------------|------------------|---------------|----------------|
| Cons_Sav | 0.967 | | | | | | |
| Cons_Conf | -0.498 | -0.568 | | | | | |
| Pol_Stab | -0.286 | -0.333 | 0.122 | | | | |
| Govt_Effc | 0.522 | 0.348 | 0.216 | 0.120 | | | |
| GDP_PC | 0.997 | 0.983 | -0.521 | -0.300 | 0.476 | | |
| Acc_Bal | -0.688 | -0.610 | 0.104 | -0.003 | -0.609 | -0.670 | |
| Unemt | 0.482 | 0.520 | -0.201 | -0.100 | 0.308 | 0.496 | -0.260 |

Economic indicators in Türkiye reveal intricate relationships between consumption, savings, political stability, government effectiveness, and labor market dynamics. Analyzing these interconnections provides valuable insights into consumer behavior, macroeconomic stability, and policy implications, which are crucial for ensuring sustainable growth and financial resilience.

Consumption Expenditure and Consumer Savings demonstrate a strong positive correlation of +0.967, indicating that these variables tend to increase together. This significant relationship implies that higher consumption spending aligns with greater savings, which may be indicative of an expanding economy where both spending and savings rise concurrently. In Türkiye, saving rates often increase due to potential income growth opportunities (Ozcan, Gunay, & Ertac, 2003) and uncertainties about future earnings. This connection highlights the interdependence of key economic factors, offering valuable insights for policymakers. Mitigating weak or negative correlations among economic variables can contribute to stability and long-term economic growth.

A moderate negative correlation between Consumer Confidence (-0.498) and a low negative correlation between Political Stability (-0.286) with Consumption Expenditure suggests that during times of optimism or political stability, individuals may prioritize saving over spending. This behavior can be linked to precautionary

saving tendencies, where people, despite current stability, anticipate future uncertainties (Carroll, 1997). Moreover, positive economic expectations may encourage long-term financial planning, leading individuals to allocate disposable income toward investments in real estate, durable goods, or financial assets rather than immediate consumption. In the short term, this shift may slow production, but in the long run, it can enhance economic resilience and flexibility.

Similarly, the negative moderate correlation between Savings and both Consumer Confidence (-0.568) and Political Stability (-0.333) suggests that individuals are more likely to spend when they feel economically secure. This aligns with Keynesian economic theory, which posits that increased confidence in economic conditions raises the marginal propensity to consume. As a result, product diversity and consumer choice expand due to stable import levels, stimulating market dynamics through heightened demand. Conversely, in uncertain periods, households tend to boost precautionary savings to safeguard against income fluctuations and financial instability (Deaton, 1991).

Unemployment exhibits a moderate positive correlation with both consumption (+0.482) and savings (+0.520). In the context of Türkiye, this seemingly paradoxical relationship can be attributed to social safety nets, unemployment benefits, and informal sector employment, which help maintain financial stability despite job losses. Additionally, higher unemployment may lead individuals to reduce discretionary spending, shift toward purchasing lower-cost goods, and rely more on dual-income household structures. It may also drive people to seek alternative income sources, enabling them to sustain both consumption and savings (Aghion & Howitt, 1994).

Government Effectiveness has a moderate positive impact on Consumption (+0.522), limited impact on Consumer Confidence (+0.216), indicating that while strong governance may enhance institutional stability, it may directly influence household consumption patterns. However, it has a moderate positive correlation with Savings (0.348), suggesting that effective governance fosters a conducive environment for financial security and long-term investment decisions. Households may trust government policies to maintain economic stability, encouraging them to engage in structured saving plans and investment activities (Acemoglu, Johnson, & Robinson, 2005).

GDP Per Capita demonstrates a perfect positive correlation with both Consumption (+0.997) and Savings (+0.983), reinforcing the income effect, where rising economic prosperity allows individuals to allocate resources toward both present needs and future financial security. In a stable environment, increases in individual income proportionally boost overall national output. Higher-income levels encourage greater consumption while also motivating individuals to save for potential future uncertainties. This aligns with the life-cycle hypothesis, which suggests that individuals accumulate wealth during their working years to maintain consumption after retirement (Modigliani & Brumberg, 1954). However, wealth inequality may restrict the extent to which income growth leads to balanced spending and saving behaviors across different socioeconomic groups (Stiglitz, 2012).

Political Stability exhibits a moderate negative correlation with GDP Per Capita (-0.301), indicating that economic growth phases may be accompanied by political uncertainty. This may stem from structural economic reforms, policy shifts, or geopolitical risks that emerge during periods of rapid economic transformation (Rodrik, 1999). Maintaining a balance between economic liberalization and institutional stability is crucial to minimizing political disruptions that could undermine investment and consumer confidence.

A strong negative correlation between Government Effectiveness and Account Balance (-0.609) suggests that improved governance may lead to higher public spending or investment, thereby reducing national savings. When governance is effective, individuals tend to increase consumption, spending more on luxury goods, durable items, and recreational activities. Additionally, well-implemented trade policies can boost imports, introducing a greater variety of foreign goods into the domestic market. This relationship highlights the fiscal trade-off between government-driven economic stimulus and national savings accumulation. If public investments are allocated to infrastructure, social services, or employment programs, short-term economic activity may increase, but at the expense of lower national savings.

Additional correlation patterns further highlight the complexities of economic interactions in Türkiye. A negative correlation between Consumer Savings and Account Balance (-0.610) suggests that higher domestic savings could be linked to external imbalances, possibly due to capital outflows, trade deficits, or reliance on foreign investment to sustain economic growth. The weak positive correlation between

Consumer Confidence and Government Effectiveness (+0.216) implies that while governance stability contributes to overall economic sentiment, other factors such as inflation, exchange rate volatility, and global economic conditions play more significant roles in shaping public confidence.

The positive relationship between government effectiveness and GDP per capita (+0.476) suggests that while strong institutions support economic development, other factors such as industrialization, technological innovation, and global trade dynamics play dominant roles in income growth. Unemployment's positive correlation with government effectiveness (+0.308) may indicate structural labor market rigidities, where policy-driven initiatives are yet to yield substantial employment gains. Meanwhile, the negative but limited correlation between unemployment and political stability (-0.113) underscores the socio-economic risks of joblessness, as rising unemployment rates may contribute to political discontent and instability.

In conclusion, the intricate relationships between consumption, savings, political stability, government effectiveness, and labor market dynamics in Türkiye reveal essential insights for understanding consumer behavior and macroeconomic stability. The strong positive correlation between consumption expenditure and savings indicates that economic prosperity allows individuals to enhance both immediate spending and future financial security. However, the moderate negative correlations with consumer confidence and political stability suggest that periods of optimism may lead individuals to prioritize saving, demonstrating the importance of political and economic stability in shaping consumer behavior.

The paradoxical relationship between unemployment, consumption, and savings highlights the role of social safety nets and informal employment in maintaining financial stability during challenging economic conditions. While government effectiveness shows limited direct impact on consumption patterns, its positive correlation with savings underscores the significance of effective governance in fostering an environment conducive to long-term financial planning.

Furthermore, the relationships between GDP per capita, political stability, and government effectiveness highlight the complex dynamics that influence economic growth. As Türkiye navigates structural reforms and geopolitical risks, balancing

economic liberalization with institutional stability will be vital to minimizing disruptions and enhancing investor confidence.

4.2.2. Bangladesh

Economic and financial indicators in Bangladesh exhibit complex interdependencies, reflecting the country's evolving economic landscape, political conditions, and labor market dynamics. Understanding these relationships provides valuable insights into consumer behavior, savings trends, and overall economic stability, which are essential to maintaining balanced economic growth and financial resilience.

Table 4.2: Bangladesh Correlation Matrix

Source: Developed for This Study Using MS Excel

| | Cons_Exp | Cons_Sav | Cons_Conf | Pol_Stab | Govt_Effc | GDP_PC | Acc_Bal |
|------------------|-----------------|-----------------|------------------|-----------------|------------------|---------------|----------------|
| Cons_Sav | 0.994 | | | | | | |
| Cons_Conf | 0.144 | 0.233 | | | | | |
| Pol_Stab | 0.085 | 0.083 | 0.225 | | | | |
| Govt_Effc | -0.184 | -0.189 | 0.052 | 0.659 | | | |
| GDP_PC | 0.998 | 0.997 | 0.169 | 0.085 | -0.186 | | |
| Acc_Bal | -0.458 | -0.468 | -0.099 | -0.170 | -0.076 | -0.461 | |
| Unemt | 0.691 | 0.693 | -0.079 | -0.465 | -0.599 | 0.692 | -0.202 |

An almost perfect positive correlation between Consumption Expenditure and Savings (+0.994) indicates that as income levels rise, households tend to increase both their spending and precautionary savings. This is in line with the permanent income hypothesis (Friedman, 1957), which suggests that individuals adjust their consumption and savings based on expected long-term earnings rather than short-term fluctuations. The simultaneous rise in both consumption and savings highlights an income effect, where economic expansion enables individuals to allocate resources toward both present consumption and future financial security.

However, Consumer Confidence exhibits weak correlations with both Consumption (+0.144) and Savings (+0.233). This may be prevalent in Bangladesh due to the lack of effective economic reforms and its stability. This suggests that even when people feel optimistic about the economy, they do not significantly increase their spending or savings. One possible explanation is the uncertainty surrounding inflation, job security, and long-term economic stability, which prevents households from making significant financial commitments (Jappelli & Pistaferri, 2017). Another contributing

factor could be a lack of well-developed investment channels, limiting opportunities for consumers to allocate surplus funds efficiently. In such cases, consumer optimism does not necessarily translate into higher spending or saving, reflecting a cautious approach to financial management.

The correlation between Political Stability and Consumer Confidence (+0.225) is relatively weak, suggesting that while a stable political environment may contribute to a sense of security, it does not strongly influence public sentiment regarding economic conditions. However, Political Stability shows a low positive correlation with Savings (+0.083), indicating that when political risks are lower, individuals may be more inclined to engage in long-term financial planning rather than spending impulsively.

A stronger link is observed between Political Stability and Government Effectiveness (+0.659), reinforcing the idea that a stable political climate facilitates better governance, policy implementation, and institutional efficiency. Improved governance fosters economic confidence, enhances investor sentiment, and promotes infrastructure development, leading to higher productivity, better employment prospects, and improved public services (Robinson & Acemoglu, 2012). However, the weak negative correlation between Government Effectiveness and Consumption (-0.184) implies that even with efficient governance, consumer spending may not rise proportionally, potentially due to a focus on long-term fiscal discipline or structural barriers in wage growth.

GDP Per Capita exhibits an extremely strong positive correlation with both Consumption (+0.986) and Savings (+0.997), reaffirming that economic expansion directly benefits households by increasing disposable income. As income levels rise, people have a greater capacity to both consume goods and services and build financial reserves. This pattern is consistent with the life-cycle hypothesis (Modigliani & Brumberg, 1954), which posits that individuals save during their working years to sustain consumption in retirement.

Interestingly, GDP Per Capita shows a weak positive correlation with Political Stability (+0.085) but a moderate negative correlation with Government Effectiveness (-0.186). This indicates that while economic growth contributes to a stable political climate, it does not necessarily reflect improvements in governance. In many developing economies, rapid economic expansion can occur alongside institutional

inefficiencies, as income gains may not always be equitably distributed or effectively managed (Rodrik, 1999). Such disparities can lead to governance challenges, policy inconsistencies, and potential social unrest if economic benefits are concentrated among a select group rather than the broader population.

The Account Balance exhibits a strong negative correlation with both Consumption (-0.458) and Savings (-0.468), suggesting that increased household spending and saving levels may contribute to trade deficits or capital outflows. This aligns with the twin deficits hypothesis (Alesina & Perotti, 1996) which argues that higher domestic consumption often leads to a widening current account deficit, especially in economies reliant on imports to meet consumer demand.

A weak correlation between Consumer Confidence and Account Balance (-0.099) implies that stronger external financial positions may provide a slight boost to public sentiment. However, the broader negative relationship between economic activity and account balance suggests that while internal demand remains strong, the country may face structural challenges in achieving trade equilibrium. Dependence on imports, limited domestic production capacity, and fluctuations in remittance inflows could all contribute to this pattern, necessitating targeted policies to enhance export diversification and industrial development.

Unemployment exhibits a strong positive correlation with both Consumption (+0.691) and Savings (0.693), reflecting an unusual pattern where higher unemployment does not necessarily lead to a decline in financial activity. Several factors could explain this trend. Social safety nets and remittances: Bangladesh receives substantial remittance inflows from its overseas workforce, which often serve as a financial cushion for households during periods of domestic employment uncertainty (Lusardi, Schneider, & Tufano, 2011). Informal sector resilience: A significant portion of Bangladesh's workforce operates in the informal economy, where employment fluctuations may not be accurately captured in official unemployment statistics. Households engaged in informal employment may continue to spend and save despite formal job losses. Precautionary savings behavior: The positive correlation between unemployment and savings suggests that during periods of job insecurity, individuals prioritize financial security, reducing discretionary expenditures and increasing savings for future uncertainties.

Unemployment also shows a moderate negative correlation with Political Stability (-0.465) and a strong negative correlation with Government Effectiveness (-0.599). This suggests that rising unemployment levels tend to coincide with governance challenges and political unrest, reflecting labor market inefficiencies, skill mismatches, and structural barriers to job creation. Additionally, the strong positive correlation between unemployment and GDP per capita (+0.692) highlights the risk of jobless growth, where economic expansion is driven by capital-intensive industries rather than widespread employment opportunities.

These findings underscore the importance of implementing balanced economic policies that address both macroeconomic stability and household financial resilience. Key policy recommendations include enhancing labor market efficiency by addressing skill gaps, improving vocational training, and promoting employment-intensive industries to help mitigate the disconnect between GDP growth and job creation. Strengthening governance and institutional effectiveness through transparent policies, reduced bureaucratic inefficiencies, and improved regulatory frameworks can enhance public trust and support economic growth. Diversifying export sectors and boosting domestic production by reducing trade imbalances through industrial expansion and innovation will improve long-term financial stability. Encouraging investment in long-term financial instruments by developing financial markets and increasing access to investment opportunities can provide households with better savings options beyond traditional cash reserves.

Ultimately, the economic and financial indicators in Bangladesh highlight the intricate relationships between consumption, savings, political stability, government effectiveness, and macroeconomic conditions. The strong correlation between income growth and both consumption and savings underscores the importance of economic expansion in improving household financial security. However, weak consumer confidence and structural economic challenges suggest that rising incomes alone are not sufficient to drive sustained financial stability.

Political stability and governance play a crucial role in shaping economic confidence, investment, and labor market dynamics. While stable political conditions contribute to better governance, they do not necessarily guarantee improved economic efficiency or equitable growth. The moderate and negative correlation between government

effectiveness and GDP per capita indicates that economic expansion must be accompanied by institutional reforms to ensure sustainable and inclusive development.

Trade imbalances and the widening account deficit further emphasize the need for strategic policies to enhance domestic production capacity and export diversification. Bangladesh's reliance on imports, remittances, and informal employment exposes vulnerabilities that could hinder long-term economic stability. Addressing these challenges requires targeted interventions, such as improving labor market efficiency, fostering employment-driven industries, and enhancing financial market accessibility to encourage long-term investments.

The observed correlation between unemployment and both consumption and savings suggests a unique economic structure where informal employment and external financial inflows cushion household spending patterns. However, the link between unemployment, governance inefficiencies, and political instability signals the need for comprehensive labor market reforms to prevent jobless growth and promote widespread economic participation.

Ultimately, achieving balanced and resilient economic growth in Bangladesh requires a multifaceted approach. Strengthening institutional frameworks, addressing structural weaknesses in the labor market, and promoting fiscal discipline will be critical in ensuring long-term stability. By implementing policies that support both macroeconomic equilibrium and household financial security, Bangladesh can foster sustainable development, enhance economic resilience, and reduce vulnerabilities arising from political and economic fluctuations.

4.3. Regression Analysis

This section examines the impact of political instability on consumer behavior using regression analysis. Multiple Regression Analysis in SMARTPLS4 is employed to assess, with a 95% confidence interval, whether political instability and its indicators have any significant effect on consumer behavior. The analysis includes Political Stability Index (Pol_Stab), Government Effectiveness (Govt_Effc), Current Account Balance PC (Acc_Bal), GDP Per Capita (GDP_PC), and Unemployment (Unemt) as independent variables, while Consumer Expenditure PC (Cons_Exp), Consumer Savings PC (Cons_Sav), and Consumer Confidence (Cons_Conf) serve as the dependent variables. By evaluating these relationships, the study aims to determine the

extent to which political and economic factors influence consumer behavior, with the findings presented in the following section.

4.3.1. Türkiye

4.3.1.1. Consumer Expenditure

The regression analysis examines the impact of political and national economic factors on consumer expenditure per capita in Türkiye. The study considers variables such as the Current Account Balance PC, GDP Per Capita, Government Effectiveness, Political Stability, and Unemployment as key determinants of consumption behavior. The results indicate that the Current Account Balance (-0.004 , $p = 0.798$) does not have a statistically significant effect on consumer spending. This suggests that whether Türkiye's current account deficit decreases or a surplus emerges, consumer expenditure remains largely unchanged. An improving current account balance may reflect fiscal austerity measures, trade surpluses, or reduced government spending, which could prompt consumers to adopt precautionary savings behavior. As Deaton (1992) notes, individuals facing economic uncertainty often prioritize savings over immediate consumption in preparation for potential future fluctuations in income and employment opportunities.

Beyond consumer behavior, structural economic adjustments also contribute to this relationship. A higher current account balance often reflects increased exports or reduced imports, implying a shift toward higher national savings and lower domestic consumption (Obstfeld & Rogoff, 1996). When businesses prioritize exports, the domestic supply of goods and services may decline, reducing local purchasing power and limiting consumer expenditure. This pattern is evident in Türkiye's growing export-driven economic model, which mirrors Germany's long-term approach to trade surpluses and controlled domestic demand (Dustmann, Fitzenberger, Schönberg, Spitz-Oener, & Alexandra, 2014).

Moreover, an improving current account balance can be associated with lower domestic demand due to inflationary pressures, high interest rates, or restrictive monetary policies aimed at stabilizing the currency (Akıncı, 2013). In such scenarios, consumer purchasing power diminishes, prompting a shift toward essential goods and services rather than discretionary spending. The current account improvements may follow periods of economic contraction, during which consumer spending weakens

before stabilizing. Similar trends have been observed in China’s transition from a high-savings, export-dependent economy to a more balanced consumption-driven model (Ma & Yi, 2010).

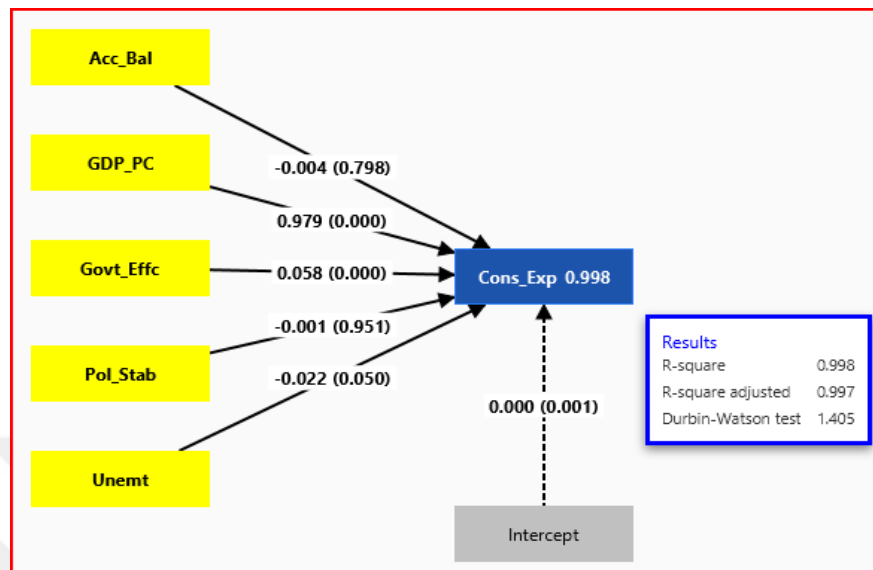


Figure 4.9: Effect of Political Instability on Consumer Expenditure in Türkiye

Source: Developed for This Study Using SmartPLS4

The analysis reveals that GDP per capita (0.979, $p = 0.000$) is statistically significant, indicating that income per capita directly influences consumer expenditure in Türkiye. This result is consistent with traditional economic theories—such as Keynesian consumption theory—which propose that higher income levels generally lead to increased spending.

However, it also aligns with empirical research suggesting that, in certain economies, consumption patterns are shaped more by structural factors, wealth distribution, and economic expectations than by absolute income levels (Deaton, 1992). In Türkiye’s case, its economic structure—marked by income inequality and unequal access to consumer credit—may explain why GDP per capita has such a strong impact on spending behavior.

Government Effectiveness (0.058, $p = 0.000$), on the other hand, shows a statistically significant relationship with consumer expenditure. This suggests that as governance quality improves, consumers may adjust their spending habits. One possible explanation is that effective government policies often coincide with fiscal discipline and economic reforms, which can lead to reduced public sector spending, higher savings, and a preference for long-term financial stability over immediate consumption

(Robinson & Acemoglu, 2012). Research has shown that in emerging economies, improved governance and institutional efficiency can create expectations of tighter fiscal policies and stronger inflation control, prompting consumers to adopt more conservative spending behaviors (Rodrik, 2000).

Political Stability (-0.001 , $p = 0.951$) does not have a statistically significant impact on consumer expenditure, indicating that improvements in stability do not alter consumer spending. This finding is somewhat unexpected, as previous studies (Alesina, Özler, Roubini, & Swagel, 1996) generally suggest that greater political stability fosters economic predictability, reduces uncertainty, and boosts consumer confidence, thereby increasing spending. However, in the Turkish context, the weak negative relationship observed may suggest that during politically stable periods, consumers adopt more cautious spending behaviors—possibly due to government-led fiscal tightening, reduced subsidies, or a shift toward long-term investments. The p -value of 0.059 suggests that the relationship is marginally significant at the 90% confidence level, indicating a weaker effect that still warrants consideration.

Unemployment (-0.022 , $p = 0.050$) has a minimal negative but statistically significant impact on consumer expenditure in Türkiye, indicating that as unemployment rises, consumer spending declines. This finding aligns with classical economic theory, which posits that higher unemployment reduces disposable income, heightens financial uncertainty, and lowers consumption (Blanchard, Katz, Hall, & Eichengreen, 1992). The relatively small effect in Türkiye may be explained by the presence of strong informal employment networks, social support mechanisms, or increased government interventions—such as unemployment benefits or subsidies—that help sustain consumer spending despite higher joblessness. It may also reflect delayed consumption adjustments, where households initially rely on savings or credit before significantly reducing their expenditures.

These findings highlight the complex interplay between macroeconomic conditions, governance, and political factors in shaping consumer expenditure. While political stability and employment security promote spending, effective governance and macroeconomic reforms may lead to more cautious consumer behavior, emphasizing the need for balanced policies that promote both stability and sustainable economic growth.

Table 4.3: Model Fit: Political Instability & Consumer Expenditure in Türkiye

Source: Developed for This Study Using MS Excel

| | Standardized coefficients | T value | P value |
|------------------|---------------------------|---------|---------|
| Acc_Bal | -0.004 | 0.259 | 0.798 |
| GDP_PC | 0.979 | 64.964 | 0.000 |
| Govt_Effc | 0.058 | 5.067 | 0.000 |
| Pol_Stab | -0.001 | 0.062 | 0.951 |
| Unemt | -0.022 | 2.049 | 0.050 |

| | Cons_Exp |
|---------------------------|----------|
| R-square | 0.998 |
| R-square adjusted | 0.997 |
| Durbin-Watson test | 1.405 |

| | VIF |
|------------------|-------|
| Acc_Bal | 2.413 |
| GDP_PC | 2.786 |
| Govt_Effc | 1.611 |
| Pol_Stab | 1.266 |
| Unemt | 1.382 |

The R-Square value of 0.998 indicates that 99.8% of the variation in Consumer Savings is explained by the independent variables, demonstrating a strong model fit. The adjusted R-Square of 0.997 further confirms the robustness of the model, showing that it retains substantial explanatory power even after adjustments for the number of predictors. Additionally, the Durbin-Watson test result of 1.405 & VIF suggest no major concerns regarding autocorrelation or multicollinearity, indicating the reliability of the regression results.

The regression results reveal that the determinants of consumer expenditure in Türkiye are shaped by a combination of income-driven dynamics and institutional factors, while some macroeconomic indicators play a limited role. Among the examined variables, GDP per capita and Government Effectiveness emerge as strong and significant drivers of consumption, underscoring the importance of both economic

capacity and governance quality in shaping household spending behavior. In contrast, the Current Account Balance and Political Stability show no robust direct effects, suggesting that external trade dynamics and political conditions may influence consumption only indirectly or under specific economic circumstances. Unemployment exhibits a modest but significant negative relationship with spending, consistent with theoretical expectations yet mitigated by social and institutional buffers. Overall, these findings indicate that policies aimed at fostering income growth, enhancing governance, and ensuring employment stability are likely to be most effective in supporting sustainable consumer demand in Türkiye.

4.3.1.2. Consumer Savings

This regression analysis examines the impact of political and economic factors on consumer savings per capita in Türkiye, considering Current Account Balance PC, GDP Per Capita, Government Effectiveness, Political Stability, and Unemployment as independent variables. The findings provide insights into how macroeconomic and governance-related factors shape household financial behavior in Türkiye, aligning with broader economic theories on savings and financial stability.

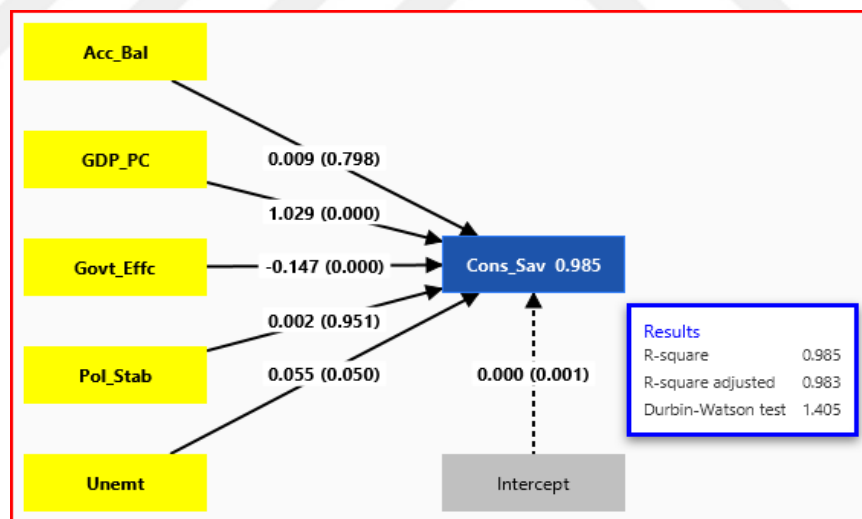


Figure 4.10: Effect of Political Instability on Consumer Saving in Türkiye

Source: Developed for This Study Using SmartPLS4

The results indicate that the Current Account Balance (0.009, $p = 0.798$) has a minimal and statistically insignificant effect on consumer savings. This suggests that improvements in Türkiye’s current account balance—whether through a narrowing deficit or a surplus—do not significantly alter household saving behavior. A possible explanation lies in the substitution effect between savings and spending: as external

balances improve and economic conditions appear more stable, consumers may gain confidence, increase expenditure, and reduce precautionary savings. This interpretation is consistent with Keynesian consumption theory, which posits that in periods of economic stability, households tend to lower their savings rates and increase consumption.

Empirical studies show that improvements in the current account often coincide with periods of rising investment and spending, particularly in economies where trade and capital flows play a central role (Obstfeld & Rogoff, 1996). In the Turkish context, where economic volatility and currency depreciation frequently shape household financial decisions, an improving current account balance may serve as a signal of better financial conditions and greater consumer confidence, thereby diminishing the incentive to save.

GDP per Capita (1.029, $p = 0.000$) exhibits a statistically significant effect on consumer savings, indicating that income changes directly influence household saving behavior. This finding aligns with the Life-Cycle Hypothesis and the Permanent Income Hypothesis, which suggest that higher income levels generally lead to greater savings. However, in emerging economies such as Türkiye, structural factors—including income inequality, limited access to credit, and persistent inflationary pressures—may shape or constrain the direct relationship between GDP growth and household savings (Deaton, 1992). Empirical studies further demonstrate that in many middle-income economies, rising GDP is associated with higher savings rates, as households respond to economic uncertainties and structural challenges that affect their long-term financial decisions.

Similarly, Government Effectiveness (-0.147 , $p = 0.000$) is found to be statistically significant at the 95% confidence level, indicating that improvements in governance have a measurable impact on consumer savings. Although effective governance is typically associated with greater financial stability and stronger institutional quality, its direct effect on household saving behavior may be constrained in contexts where macroeconomic factors—such as inflation, interest rates, and employment conditions—play a more dominant role in shaping financial decisions (Rodrik, 2000). In the case of Türkiye, governance improvements may foster long-term economic stability and strengthen institutional trust; however, they do not appear to translate into immediate shifts in household saving patterns.

Political Stability (0.002, $p = 0.951$) emerges as a weak and statistically insignificant positive determinant of consumer savings, suggesting that greater stability does not meaningfully encourage higher saving behavior. This finding contrasts with existing research, which argues that political stability reduces economic uncertainty, fosters confidence in long-term financial planning, and encourages precautionary savings (Alesina, Özler, Roubini, & Swagel, 1996). In politically unstable environments, consumers are more likely to adopt short-term consumption strategies in response to uncertainty about future economic conditions, whereas stability is expected to promote long-term financial security and asset accumulation.

In Türkiye's historical context, periods of political uncertainty, currency depreciation, and inflationary spikes have often coincided with lower savings rates, as households shifted toward immediate consumption to safeguard their living standards. Conversely, episodes of greater political stability have typically been associated with stronger household savings rates and improved financial planning, as consumers felt more secure about their long-term economic prospects.

The finding that Unemployment (0.055, $p = 0.050$) has a limited but statistically significant positive impact on consumer savings aligns with socio-economic behaviors typically observed during periods of labor market instability. Rising unemployment in Türkiye often generates widespread economic anxiety, reducing households' confidence in the stability of future income. In response, consumers tend to adopt precautionary financial strategies.

When unemployment increases, households become more cautious with their expenditures. Non-essential consumption declines as individuals prioritize saving in anticipation of potential income loss or job insecurity. Even though aggregate income levels may fall, those who remain employed often increase their precautionary savings as a safeguard against possible financial difficulties. Consequently, higher unemployment may lead to greater household savings—not because disposable income expands, but because families adjust their financial behavior defensively. This pattern has been observed in Türkiye during previous economic crises (Öniş & Güven, 2011; İpek & Sekmen, 2016).

Table 4.4: Model Fit _Political Instability & Consumer Saving in Türkiye

Source: Developed for This Study Using MS Excel

| | Standardized coefficients | T value | P value |
|------------------|----------------------------------|----------------|----------------|
| Acc_Bal | 0.009 | 0.259 | 0.798 |
| GDP_PC | 1.029 | 27.034 | 0.000 |
| Govt_Effc | -0.147 | 5.067 | 0.000 |
| Pol_Stab | 0.002 | 0.062 | 0.951 |
| Unemt | 0.055 | 2.049 | 0.050 |

| | Cons_Sav |
|---------------------------|-----------------|
| R-square | 0.985 |
| R-square adjusted | 0.983 |
| Durbin-Watson test | 1.405 |

| | VIF |
|------------------|------------|
| Acc_Bal | 2.413 |
| GDP_PC | 2.786 |
| Govt_Effc | 1.611 |
| Pol_Stab | 1.266 |
| Unemt | 1.382 |

The R-Square value of 0.985 indicates that 98.5% of the variation in Consumer Savings is explained by the independent variables, demonstrating a strong model fit. The adjusted R-Square of 0.983 further confirms the robustness of the model, showing that it retains substantial explanatory power even after adjustments for the number of predictors. Additionally, the Durbin-Watson test result of 1.405 & VIF suggest no major concerns regarding autocorrelation or multicollinearity, indicating the reliability of the regression results.

To sum up, the findings reveal that household savings in Türkiye are primarily influenced by structural factors such as income levels and labor market conditions, rather than by improvements in the current account balance, political stability, or governance alone. GDP per capita is the strongest determinant of savings, while unemployment shows a limited but significant positive effect, reflecting precautionary behavior during periods of income uncertainty. In contrast, government effectiveness and political stability do not translate into immediate changes in household saving patterns. Overall, the results suggest that fostering higher and more stable incomes,

reducing inflationary pressures, and addressing employment insecurity are critical for strengthening household savings and financial resilience in Türkiye.

4.3.1.3. Consumer Confidence

This regression model analyzes the impact of macroeconomic and political factors on Consumer Confidence in Türkiye. Consumer confidence reflects the optimism or pessimism of households regarding the country's economic future. High consumer confidence encourages spending and economic growth, whereas low confidence leads to cautious spending and potential economic slowdowns. The independent variables analyzed include Current Account Balance PC, GDP Per Capita, Government Effectiveness, Political Stability, and Unemployment.

The negative but statistically insignificant relationship (-0.267 , $p = 0.193$) indicates that changes in the Current Account Balance—whether improving or deteriorating—do not exert a strong influence on consumer confidence in Türkiye. While economic theory suggests that an improved current account balance, typically through a surplus or a reduced deficit, can enhance economic stability and consumer optimism (Obstfeld & Rogoff, 1996), this effect appears muted in Türkiye. Factors such as persistent inflation, currency fluctuations, and geopolitical risks may overshadow the role of external balances, limiting their impact on household confidence.

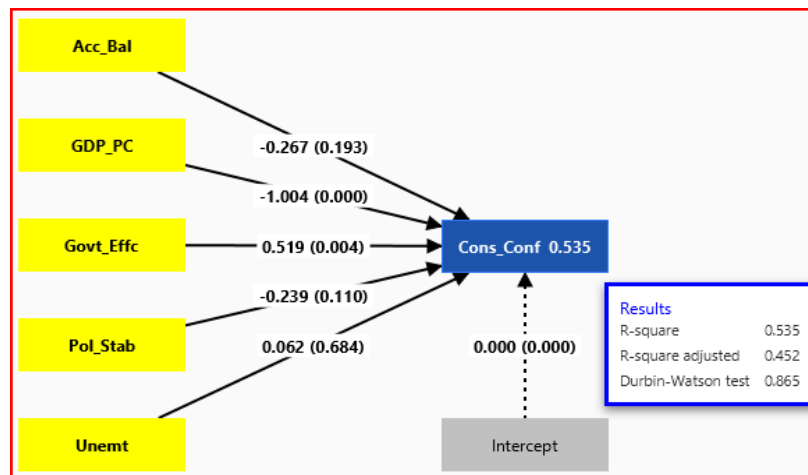


Figure 4.11: Effect of Political Instability on Consumer Confidence in Türkiye

Source: Developed for This Study Using SmartPLS4

GDP per capita (-1.004 , $p = 0.000$) shows a strong and significant negative relationship with consumer confidence, suggesting that income growth directly influences confidence levels. Consumers may adjust their confidence and spending behavior

based on long-term income expectations rather than short-term fluctuations. The significance of GDP per capita in this model indicates that other economic factors, such as inflation, employment conditions, and exchange rate volatility, may also affect how income growth shapes consumer confidence in Türkiye.

The results indicate that improvements in Government Effectiveness (0.519, $p = 0.004$) significantly influence consumer confidence. Although better governance supports long-term economic stability, its immediate effect on sentiment depends on accompanying policy measures targeting inflation, unemployment, and economic growth (Rodrik, 2000). This finding is consistent with evidence that, in emerging markets, consumer sentiment is more sensitive to short-term macroeconomic conditions than to governance reforms alone.

Political Stability (-0.239, $p = 0.110$) exhibits a limited and statistically insignificant effect on consumer confidence, contrary to studies emphasizing stability's role in enhancing economic predictability and sentiment (Alesina et al., 1996). In Türkiye, political uncertainty often coincides with economic volatility, currency depreciation, and inflation, which may offset any positive impact of stability on confidence (Dornbusch & Edwards, 1990). The insignificance observed in this model suggests that economic factors, such as inflation and unemployment, exert a stronger influence on consumer sentiment than political conditions alone.

Unemployment (0.062, $p = 0.684$) has a statistically insignificant, albeit limited, positive effect on consumer confidence, which contrasts with the established link between labor market stability and economic sentiment (Blanchard, Katz, Hall, & Eichengreen, 1992). Rising joblessness typically increases household financial insecurity, reducing consumer optimism and spending propensity. This finding aligns with research indicating that high unemployment generates economic uncertainty, lowers disposable income, and diminishes overall consumer sentiment in emerging economies (Carroll, 1997). In Türkiye, where unemployment fluctuations are closely linked to macroeconomic shocks and financial crises, labor market conditions remain a key determinant of consumer confidence.

Table 4.5: Model Fit_Political Instability & Consumer Confidence in Türkiye

Source: Developed for This Study Using MS Excel

| | Standardized Coefficients | T value | P value |
|------------------|----------------------------------|----------------|----------------|
| Acc_Bal | -0.267 | 1.333 | 0.193 |
| GDP_PC | -1.004 | 4.668 | 0.000* |
| Govt_Effc | 0.519 | 3.174 | 0.004* |
| Pol_Stab | -0.239 | 1.646 | 0.110 |
| Unemt | 0.062 | 0.411 | 0.684 |

| | Cons_Conf |
|---------------------------|------------------|
| R-square | 0.535 |
| R-square adjusted | 0.452 |
| Durbin-Watson test | 0.865 |

| | VIF |
|------------------|------------|
| Acc_Bal | 2.413 |
| GDP_PC | 2.786 |
| Govt_Effc | 1.611 |
| Pol_Stab | 1.266 |
| Unemt | 1.382 |

The low R-Square value (0.535) indicates that the independent variables explain half of the variation in consumer confidence, suggesting that additional factors such as inflation, exchange rate volatility, interest rates, and geopolitical risks may have influence on consumer sentiment. The adjusted R-Square of 0.452 further suggests that after accounting for the number of variables, the model's explanatory power is still moderate. Additionally, the Durbin-Watson test value of 0.865 raises concerns about potential autocorrelation, meaning that the model may suffer from omitted variable bias or residual correlation though VIF presents minimal multicollinearity issue.

In summary, consumer confidence in Türkiye appears to be most strongly shaped by GDP per capita and government effectiveness, highlighting the importance of income growth and governance quality in influencing household sentiment. In contrast, political stability, unemployment, and the current account balance exhibit limited or statistically insignificant effects, suggesting that short-term economic fluctuations, inflation, and macroeconomic shocks may overshadow their influence. These findings indicate that while long-term structural factors drive consumer confidence, immediate

economic conditions and policy measures play a crucial role in moderating how households perceive and respond to broader economic developments.

4.3.2. Bangladesh

4.3.2.1. Consumer Expenditure

The regression models examine the relationship between macroeconomic and governance-related factors and Consumer Expenditure per capita, with a particular focus on Bangladesh. Similar to the case of Türkiye, the analysis incorporates variables such as Current Account Balance per capita, GDP per Capita, Government Effectiveness, Political Stability, and Unemployment. A 95% confidence interval has been applied to assess the extent of their impact.

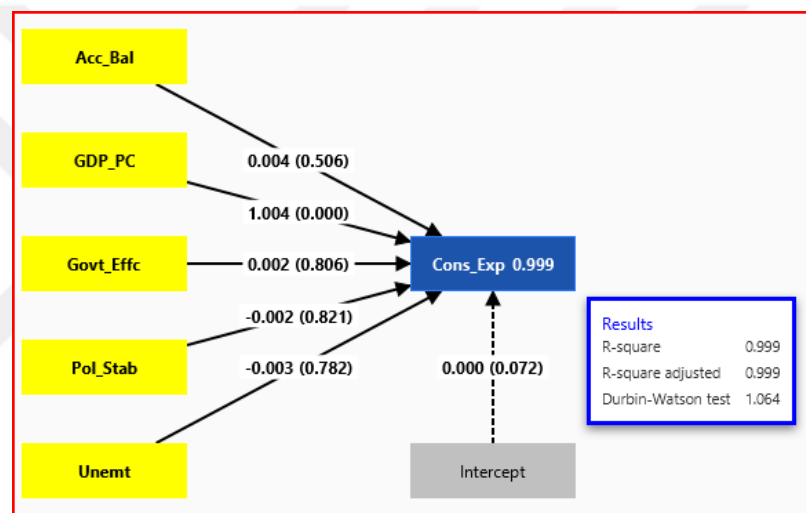


Figure 4.12: Effect of Political Instability on Consumer Expenditure in Bangladesh

Source: Developed for This Study Using SmartPLS4

This regression analysis examines the relationship between key political and economic factors and consumer expenditure in Bangladesh. The result indicates that the Current Account Balance (0.004, $p = 0.506$) exhibits a weak and statistically insignificant impact on consumer expenditure, suggesting that improvements in Bangladesh’s current account—typically through export growth or reduced imports—do not directly translate into changes in household spending. An improving external balance may reflect increased national savings or investment rather than consumption. This finding aligns with macroeconomic theory, which posits that current account surpluses often coincide with reduced domestic consumption in favor of production and external trade (Obstfeld & Rogoff, 1996). The weak statistical insignificance indicates that external

trade imbalances exert a limited influence on household consumption compared to the stronger and more direct effects of income growth. Additionally, in developing economies like Bangladesh, current account adjustments often arise from structural trade dynamics or external aid flows rather than deliberate changes in consumption, further diluting their effect on household behavior (Bhattacharya & Hossain, 2010). Thus, while the current account balance provides some insight into external economic conditions, it appears secondary to income growth in shaping consumer expenditure trends.

GDP Per Capita (1.004, $p= 0.000$) has a strong and statistically significant positive impact on consumer expenditure, confirming that higher income levels are directly associated with increased consumer spending. This finding suggests that rising income leads to greater household spending, consistent with the Keynesian consumption function, which posits that consumption increases with income (Keynes, 1936). The strong statistical significance of GDP per capita in both models reinforces the notion that income is the primary determinant of consumption patterns in Bangladesh. This aligns with the Life-Cycle Hypothesis and the Permanent Income Hypothesis, both of which argue that consumers base their expenditure on expected lifetime income rather than current earnings alone. In the context of Bangladesh, where economic development has contributed to rising household incomes, this relationship underscores the crucial role of inclusive growth in driving domestic demand and supporting economic resilience.

Government Effectiveness (0.002, $p= 0.806$) is found to be statistically insignificant, implying that improvements in governance do not have a direct effect on consumer expenditure. While effective governance can create a stable economic environment, its direct influence on short-term consumption behavior appears to be minimal. This finding aligns with studies showing that institutional quality influences long-term economic growth rather than immediate spending decisions (Rodrik, 2000).

Similarly, Political Stability (-0.002, $p= 0.821$) does not exhibit a significant effect on consumer expenditure, indicating that consumer spending in Bangladesh is not directly influenced by political stability. This contradicts previous research, which often suggests that greater political stability fosters economic confidence and encourages higher spending (Alesina et al., 1996). The lack of significance in this model suggests

that short-term economic conditions, such as income and trade balances, have a stronger influence on consumer behavior than political factors.

Unemployment (-0.003, $p= 0.782$) is highly insignificant with minimal influence, suggesting that unemployment does not have a measurable impact on consumer expenditure, which is an unusual finding given the traditional expectation that higher unemployment reduces disposable income and household spending (Blanchard, Katz, Hall, & Eichengreen, 1992). The insignificance of unemployment in the model may indicate that other factors, such as household savings, informal labor markets, or government subsidies, may buffer the effect of joblessness on spending behavior.

The model fit indicators are exceptionally high, with an R-Square value of 0.999, indicating that nearly all variability in consumer expenditure is explained by the independent variables. The adjusted R-Square of 0.999 confirms the robustness of the model, while the Durbin-Watson test values (1.064) suggest limited potential concerns regarding autocorrelation; some residual dependencies may exist within the data. In addition, the VIF also depicts a moderate multicollinearity problem in the model. For this analysis, a developed model is presented in the appendix.

Table 4.6: Model Fit: Political Instability & Consumer Expenditure in Bangladesh

Source: Developed for This Study Using MS Excel

| | Standardized Coefficients | T value | P value |
|------------------|----------------------------------|----------------|----------------|
| Acc_Bal | 0.004 | 0.673 | 0.506 |
| GDP_PC | 1.004 | 95.523 | 0.000* |
| Govt_Effc | 0.002 | 0.248 | 0.806 |
| Pol_Stab | -0.002 | 0.228 | 0.821 |
| Unemt | -0.003 | 0.279 | 0.782 |

| | Cons_Exp |
|---------------------------|-----------------|
| R-square | 0.999 |
| R-square adjusted | 0.999 |
| Durbin-Watson test | 1.064 |

| | VIF |
|------------------|------------|
| Acc_Bal | 1.323 |
| GDP_PC | 3.473 |
| Govt_Effc | 2.152 |
| Pol_Stab | 2.424 |
| Unemt | 4.107 |

In the context of Bangladesh, these findings highlight the predominant role of economic output in driving consumer spending. While institutional and political factors are often discussed in policy circles, their lack of statistical significance suggests that immediate household financial conditions and income levels are more critical determinants of consumption behavior. The coefficients on Government Effectiveness hint at the complexity of governance structures, where reforms may have unintended consequences on short-term consumption. Additionally, the Account Balance's slight impact indicates that external trade dynamics, such as imports and exports, might play a role but are not the main drivers of domestic consumer behavior.

Overall, these results align with existing economic literature on Bangladesh, where rising per capita income has been a primary driver of the expanding consumer market. The implications for policymakers are clear: strategies focusing on income growth and economic expansion are likely to have the most significant impact on consumer behavior. However, improving governance and political stability may still play an indirect role in fostering a more sustainable economic environment in the long run.

4.3.2.2. Consumer Savings

The regression analysis examines the influence of macroeconomic and governance-related factors on Consumer Savings per capita in Bangladesh. The models incorporate all independent variables to understand their significant impact on household saving behavior.

The regression results reveal notable relationships between macroeconomic indicators and consumer savings behavior in Bangladesh. The Current Account Balance shows a negative and statistically insignificant relationship with consumer savings, with a coefficient of -0.012 ($p = 0.506$). This suggests that improvements in Bangladesh's external financial position—whether through trade surpluses or reduced deficits—do not necessarily lead households to increase precautionary savings. According to theories of precautionary behavior, consumers tend to save less when uncertainty

declines and confidence in the macroeconomic environment strengthens (Carroll, 1997). Furthermore, an improved current account may reflect higher export revenues or capital inflows, which are often channeled into greater domestic consumption and investment, thereby reducing the funds allocated to savings (Obstfeld & Rogoff, 1996).

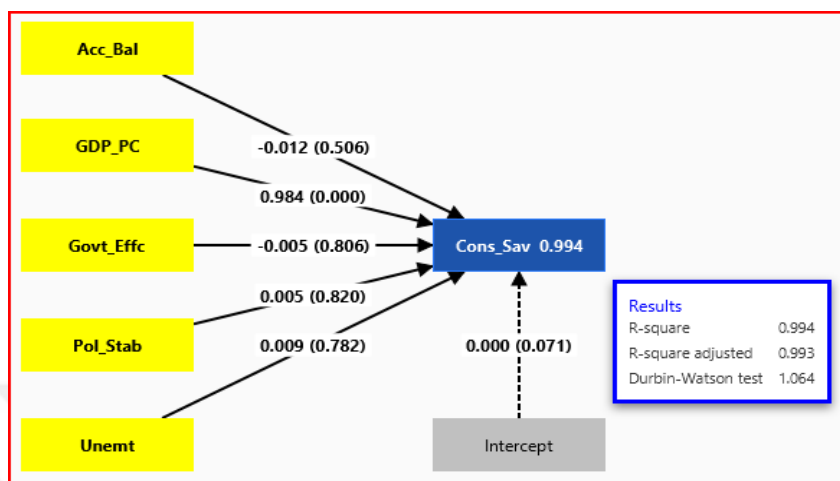


Figure 4.13: Effect of Political Instability on Consumer Saving in Bangladesh

Source: Developed for This Study Using SmartPLS4

In contrast, GDP per Capita is found to have a strong positive and highly significant impact on consumer savings, with a coefficient of 0.878 ($p=0.000$). This indicates that as income levels rise, households are more capable of setting aside a portion of their income for future needs. This aligns with the Permanent Income Hypothesis proposed by Friedman (1957), which posits that individuals base their consumption and savings decisions not just on current income but on expected long-term income. Similarly, the Life-Cycle Hypothesis suggests that individuals save more during their peak earning years to ensure consumption in retirement. In the context of Bangladesh, rising GDP per capita likely reflects growing employment opportunities and income growth, enabling more households to plan long-term and accumulate financial reserves.

Government Effectiveness (-0.005 , $p=0.806$) is found to be statistically insignificant, implying that improvements in governance do not have an immediate or direct impact on consumer savings behavior. While effective governance enhances economic stability and institutional trust, its role in shaping household savings decisions appears to be minimal. This aligns with prior studies indicating that governance reforms have long-term structural effects (Rodrik, 2000) rather than immediate behavioral changes in savings patterns.

Political Stability (0.005, p= 0.820) exhibits a weak positive effect on consumer savings, with significance increasing as the model is refined. Greater political stability encourages household confidence and financial security, but its direct impact on savings remains limited. A predictable economic environment fosters financial security, yet individual savings decisions may be mediated by other economic variables such as inflation, employment stability, and financial market performance.

Unemployment (0.009, p= 0.782) is found to be highly insignificant, suggesting that fluctuations in unemployment do not significantly affect consumer savings in Bangladesh, which contrasts with traditional economic theories (Blanchard & Katz, 1992). Possible explanations include the presence of informal employment structures, household reliance on remittances, and social safety nets that reduce the direct dependency of savings on employment status.

The model fit indicators suggest strong explanatory power. The high R-Square value indicates the included variables explain approximately 99.4% of the variation in consumer savings. The adjusted R-Square values confirm the robustness of the models, showing that the explanatory power remains strong. The Durbin-Watson test results indicate that autocorrelation has a minimal concern, reinforcing the reliability of the regression results, while VIF indicates minor multicollinearity concern for some variables.

Table 4.7: Model Fit: Political Instability & Consumer Saving in Bangladesh

Source: Developed for This Study Using MS Excel

| | Standardized Coefficients | T value | P value |
|------------------|----------------------------------|----------------|----------------|
| Acc_Bal | -0.012 | 0.673 | 0.506 |
| GDP_PC | 0.984 | 35.159 | 0.000* |
| Govt_Effc | -0.005 | 0.248 | 0.806 |
| Pol_Stab | 0.005 | 0.229 | 0.820 |
| Unemt | 0.009 | 0.280 | 0.782 |

| | Cons_Sav |
|---------------------------|-----------------|
| R-square | 0.994 |
| R-square adjusted | 0.993 |
| Durbin-Watson test | 1.064 |

| | VIF |
|------------------|------------|
| Acc_Bal | 1.323 |
| GDP_PC | 3.473 |
| Govt_Effc | 2.152 |
| Pol_Stab | 2.424 |
| Unemt | 4.107 |

These findings highlight the dual influence of macroeconomic stability and income growth on household saving behavior in Bangladesh. On one hand, improvements in the current account balance appear to reduce the need for precautionary savings, as households interpret stronger trade performance as a signal of economic stability. On the other hand, rising GDP per capita significantly enhances households' ability to save, confirming that income growth plays a crucial role in fostering financial security. Together, these dynamics help explain the evolving patterns of consumer financial behavior in emerging economies such as Bangladesh.

From a policy standpoint, the results indicate that fostering income growth is the most effective strategy for increasing household savings. Targeted economic development initiatives that raise household income levels can significantly improve national saving rates. Additionally, structural reforms in trade policy may be necessary to address the potential negative effects of account balance fluctuations on savings behavior, ensuring that short-term improvements in external balances do not undermine long-term financial planning.

Although political stability and governance are widely acknowledged as foundational components of economic security, their lack of statistical significance in this model suggests that their influence on consumer savings may be more indirect. Nevertheless, maintaining a stable macroeconomic environment remains essential. Continued efforts to reinforce institutional stability and sound economic governance will support sustainable growth in household savings and contribute to the broader financial resilience of the Bangladeshi economy.

4.3.2.3. Consumer Confidence

The regression models provided analyze the relationship between macroeconomic and governance-related factors and Consumer Confidence in Bangladesh. The dependent variable, consumer confidence, demonstrates a significantly lower R-squared value indicating that the selected independent variables explain only a small portion of the variation in consumer sentiment. This suggests that other unaccounted factors, such as

cultural attitudes, external shocks, or behavioral influences, may play a larger role in shaping consumer confidence.

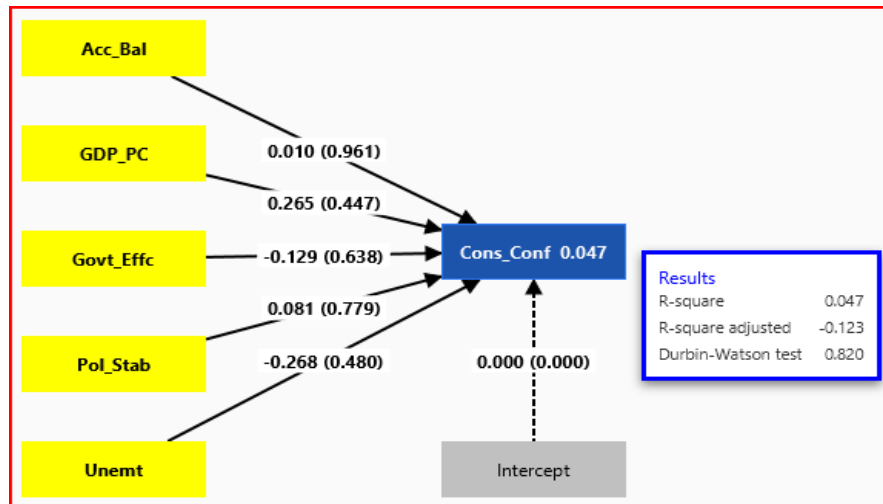


Figure 4.14: Effect of Political Instability on Consumer Confidence in Bangladesh

Source: Developed for This Study Using SmartPLS4

The regression analysis presents important insights into the relationship between macroeconomic indicators and consumer confidence in Bangladesh. Among the variables included in the model, the Current Account Balance exhibits a minimal positive coefficient of 0.010, suggesting that improvements in external trade balances may have a favorable impact on consumer sentiment. However, with a p-value of 0.961, the result lacks statistical significance, indicating that the observed relationship may not be robust. This weak statistical outcome may reflect the indirect and delayed effects of trade performance on household perceptions, which are often shaped through intermediary variables such as exchange rate fluctuations, inflationary pressures, or employment trends in export-oriented sectors (Obstfeld & Rogoff, 1996).

Similarly, GDP per Capita shows a positive coefficient of 0.265, which aligns with economic theory suggesting that higher income levels boost consumer optimism and perceived financial well-being. Nonetheless, the p-value of 0.447 implies that this relationship is not statistically significant at the conventional 5% level. While rising income is generally expected to elevate consumer confidence, this result suggests that income alone may not fully account for the variation in sentiment among Bangladeshi households. Other pressing economic concerns—such as inflation, wage stability, and

job security—may have a more immediate and tangible influence on consumer expectations (Friedman, 1957), (Modigliani & Brumberg, 1954).

In contrast, Government Effectiveness and Political Stability fail to demonstrate a meaningful impact on consumer confidence. The coefficient for government effectiveness is -0.129 with a p -value of 0.638 , while political stability shows a negligible coefficient of 0.081 with a high p -value of 0.779 . These statistically insignificant results indicate that improvements in institutional governance and political conditions do not translate into short-term shifts in consumer sentiment in Bangladesh. One possible explanation for this outcome is a disconnect between institutional performance and household-level perceptions, or the possibility that governance-related improvements take time to manifest in the form of consumer optimism. This finding supports existing literature which suggests that short-term fluctuations in consumer confidence tend to be more responsive to macroeconomic variables than to institutional or political indicators (Rodrik, 2000).

In the specific context of Bangladesh—where periodic political disruptions have not consistently undermined long-term economic activity—households may develop resilience and prioritize economic stability indicators such as inflation, wages, and employment over political dynamics when evaluating their financial well-being. As such, political conditions, though structurally important, may not weigh heavily on the day-to-day consumer psyche.

Among all variables assessed, unemployment emerges as the most influential factor, with a strong negative coefficient of -0.268 and a p -value of 0.480 , making it marginally insignificant. This relationship may underscore the critical role that labor market conditions play in shaping consumer confidence. Higher unemployment rates are closely associated with declining consumer confidence. An increase in the levels of unemployment heightens financial insecurity, reduces disposable income, and creates pessimism about future economic prospects. This, in turn, leads households to adopt more cautious consumption behaviors and reduce discretionary spending, which collectively depresses consumer confidence (Blanchflower & Oswald, 2004).

Table 4.8: Model Fit_Political Instability & Consumer Confidence in Bangladesh

Source: Developed for This Study Using MS Excel

| | Standardized coefficients | T value | P value |
|------------------|----------------------------------|----------------|----------------|
| Acc_Bal | 0.010 | 0.049 | 0.961 |
| GDP_PC | 0.265 | 0.771 | 0.447 |
| Govt_Effc | -0.129 | 0.476 | 0.638 |
| Pol_Stab | 0.081 | 0.283 | 0.779 |
| Unemt | -0.268 | 0.716 | 0.480 |

| | Cons_Conf |
|---------------------------|------------------|
| R-square | 0.047 |
| R-square adjusted | -0.123 |
| Durbin-Watson test | 0.820 |

| | VIF |
|------------------|------------|
| Acc_Bal | 1.323 |
| GDP_PC | 3.473 |
| Govt_Effc | 2.152 |
| Pol_Stab | 2.424 |
| Unemt | 4.107 |

The model fit indicators reveal a notably weak explanatory capacity. The R-squared values remain relatively low, with the final specification accounting for only 4.7% of the variation in consumer confidence. Furthermore, the adjusted R-squared of -0.123 underscores the inadequacy of the current set of predictors, as it suggests that the inclusion of these variables does not enhance, and may even diminish, the overall explanatory power of the model. These findings highlight the necessity of incorporating additional macroeconomic and behavioral determinants—such as inflation dynamics, exchange rate fluctuations, and consumer expectations—in order to strengthen the model’s robustness and improve its capacity to account for variations in consumer confidence. The Durbin-Watson test value of 0.820 indicates potential concerns regarding autocorrelation, and VIF implies multicollinearity issues, suggesting that some residual dependencies exist.

The result suggests that, in the context of Bangladesh, consumer confidence is not directly influenced by political stability alone. Given that Bangladesh has experienced periods of political uncertainty without significant long-term economic disruptions, the results imply that consumers may prioritize economic indicators such as inflation,

wages, and employment over political conditions when assessing their financial outlook.

From a policy perspective, boosting employment opportunities is a key factor in improving consumer sentiment. While GDP growth contributes to confidence, it does not guarantee increased optimism among consumers. The negative or insignificant role of Government Effectiveness and Political Stability suggests that governance factors may not directly influence consumer confidence, though they may have indirect effects through economic stability. This aligns with broader economic patterns in Bangladesh, where labor market fluctuations and job security concerns significantly impact household economic expectations. Addressing employment challenges, particularly among young and low-income populations, could be an effective strategy to enhance consumer confidence and stimulate economic participation.

CHAPTER V

CONCLUSION AND RECOMMENDATIONS

Introduction

The relationship between the political environment of a given region and consumer behavior constitutes a vital intersection of macroeconomic stability, institutional credibility, and individual's everyday economic decisions. In the context of emerging economies such as Bangladesh and Türkiye, this relationship becomes increasingly complex and critical. These countries frequently experience political transitions, policy uncertainty, economic volatility, fragile institutional structures, weak corporate governance, and limited social resilience—all of which contribute to a dynamic environment where consumer expectations and behaviors are constantly being shaped and reshaped. Political instability, in particular, can have far-reaching effects not only on investment flows and financial markets but also on household-level decision-making related to consumption, savings, and long-term financial planning.

Consumers often respond to political uncertainty by delaying major purchases, increasing precautionary savings, or shifting their spending toward essential goods and services. These behavioral shifts, when aggregated, can significantly influence the broader economy. Therefore, understanding how fluctuations in political stability affect consumer sentiment and financial behavior is essential for policymakers, businesses, and researchers alike. It provides insights into the mechanisms through which governance quality and institutional performance translate into economic activity at the household level.

This study seeks to explore and quantify this multifaceted relationship through a comparative, data-driven framework using time-series regression analysis. By examining key macroeconomic and governance indicators over 27 years (1995–2022), the research aims to determine the extent to which political instability and governance effectiveness influence consumer expenditure, savings patterns, and confidence levels in both Bangladesh and Türkiye. The findings not only contribute to academic discourse but also offer practical implications for stabilizing economic expectations in politically sensitive environments.

Summary of the Study

The study investigated the impact of political instability and related macroeconomic indicators—namely political stability, government effectiveness, GDP per capita, current account balance, and unemployment—on consumer behavior in Bangladesh and Türkiye. Using descriptive statistics, correlation matrices, and multivariable regression models in SPSS and SmartPLS4, the analysis revealed that GDP per capita consistently emerged as the most significant and positive determinant of consumer expenditure and confidence in both countries. In contrast, political instability and government effectiveness showed limited or statistically insignificant effects, particularly in the case of Türkiye, whereas in Bangladesh, certain indirect effects were more observable. The current account balance tended to have a negative association with savings, suggesting an inverse link between external balance improvements and household saving tendencies.

Overall, the findings suggest that while political conditions are often perceived as influential, macroeconomic fundamentals, particularly income levels, remain the dominant forces shaping consumer behavior. However, the indirect role of political stability, via channels like employment and institutional trust, cannot be fully discounted, especially in more fragile political environments like that of Bangladesh.

Practical Implications

The results of this study offer several valuable insights for national or institutional policymakers, business enterprises, and international development agencies. Firstly, the importance of sustained income growth and macroeconomic stability as driving force of consumer spending highlights the need for pro-growth policies and fiscal discipline. Secondly, while political instability may not show a direct effect on consumer behavior in all models, its latent impact through institutional credibility, investor sentiment, and employment expectations suggests that long-term political stability and effective governance remain essential for maintaining consumer confidence and economic momentum.

For businesses, particularly those operating in consumer-driven sectors, understanding the interaction between political conditions and economic fundamentals is crucial for strategic decision-making. This includes considerations related to market entry, pricing structures, promotional planning, and risk management. In contexts like

Bangladesh, where political fluctuations can disrupt economic continuity, business entities may need to adopt more flexible marketing and investment strategies to mitigate potential shocks.

Recommendations for Further Research

Further research on the relationship between political instability and consumer behavior could benefit from deeper, more granular analysis. One promising direction would be to incorporate micro-level household data or behavioral survey results, which could reveal how specific consumer segments—based on income, education, age, or geographic location—respond to political changes. While this study focused on macro-level indicators, future research could complement these findings by examining the psychological and emotional factors that influence consumption during periods of political uncertainty.

In addition, the integration of qualitative methods such as interviews, focus groups, or narrative analysis would allow researchers to capture consumer perceptions and attitudes that cannot be fully explained through quantitative models. For instance, understanding how political rhetoric, media coverage, or trust in institutions affects consumer sentiment could provide richer insights into behavioral patterns.

Expanding the study beyond Bangladesh and Türkiye to include other emerging economies with different levels of political volatility could also strengthen the generalizability of the findings. Cross-national comparative studies could help identify regional trends and uncover the role of cultural, institutional, and historical contexts in shaping consumer behavior.

Another important area for future exploration involves assessing short-term consumer reactions during critical political events, such as elections, government transitions, or policy shifts. Time-sensitive data collected around such events could uncover immediate behavioral responses that long-term time series analyses may overlook.

Finally, considering the increasing digitalization of consumer markets, future research should explore how technological platforms, online commerce, and digital financial services interact with political dynamics to influence consumer choices. In politically unstable environments, digital tools may offer consumers new ways to adapt and manage risks, an area that remains underexplored in current literature.

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APPENDICES

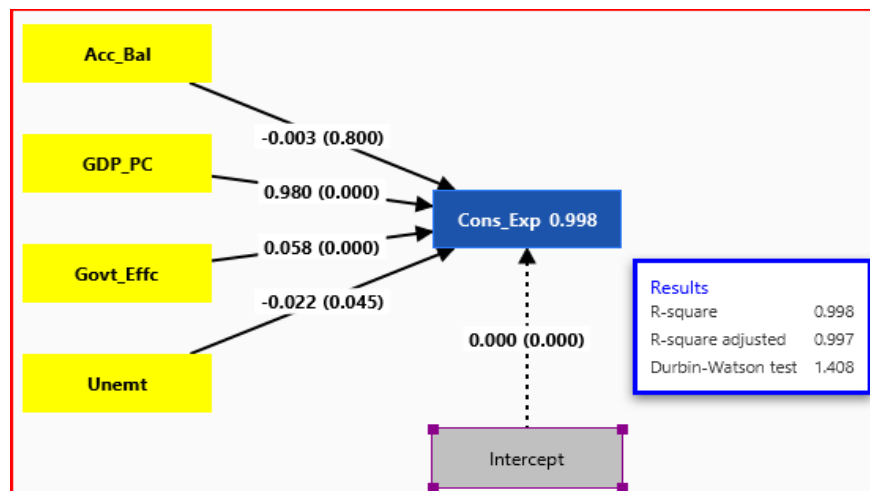
In the regression analysis section, all independent variables were initially included to examine their significant impact on the dependent variables. However, the results did not indicate a proper model fit, which may be attributed to issues such as autocorrelation, multicollinearity, or the exclusion of relevant variables that could have direct or indirect effects on the dependent variables.

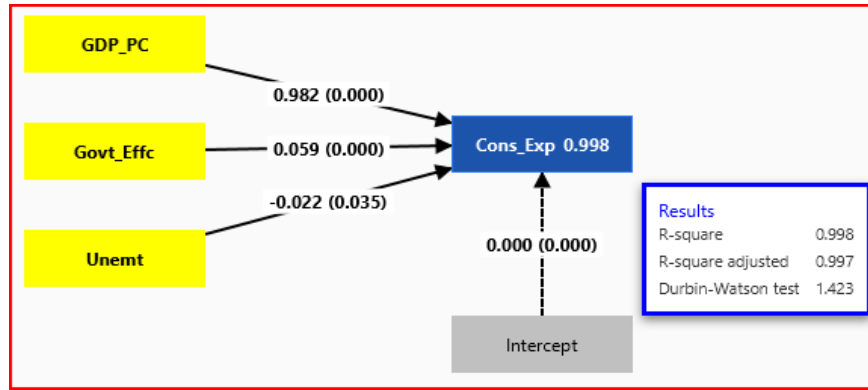
To improve model adequacy, I attempted to construct a better-fitting model by removing the least significant variable(s) from the original specification while retaining the same independent variable set. The model evaluation focused on key indicators such as the R-squared value, Durbin-Watson test score, and Variance Inflation Factor (VIF) to determine the most reliable model based on the available data.

Appendix A (Case of Türkiye)

Consumer Expenditure

In the second and third regression models, the removal of statistically insignificant variables, such as political stability and current account balance, did not yield any substantial changes in the overall model performance. The only observable effect was a marginal improvement in the variance inflation factor, indicating a slight reduction in multicollinearity. However, both the R-squared and adjusted R-squared values remained unchanged. Accordingly, the third model can be considered the most suitable specification for this study, as it achieves a more parsimonious structure without compromising explanatory power.





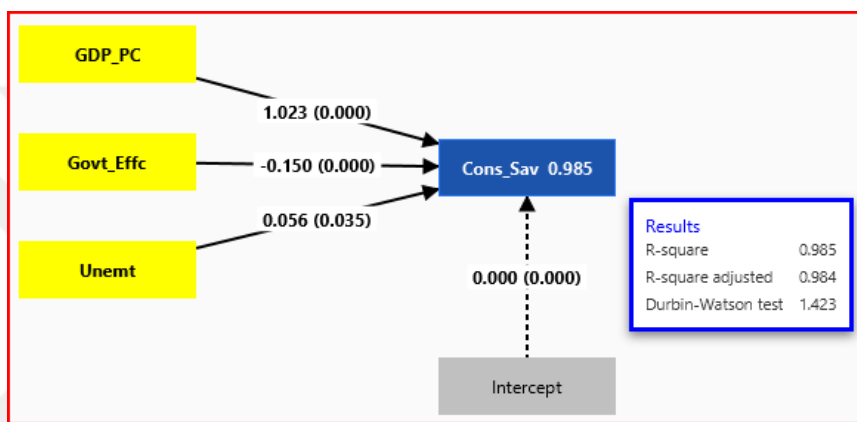
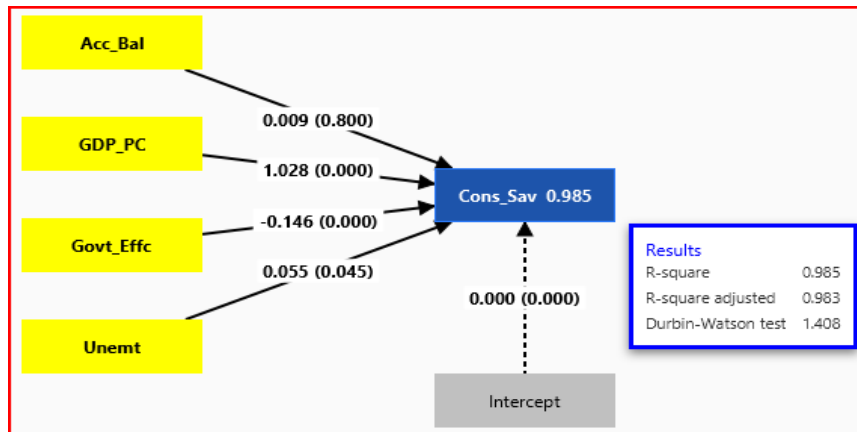
Consumer Expenditure: Model 02 & 03

| | Cons_Exp |
|---------------------------|-----------------|
| R-square | 0.998 |
| R-square adjusted | 0.997 |
| Durbin-Watson test | 1.423 |

| | VIF |
|------------------|------------|
| GDP_PC | 1.539 |
| Govt_Effc | 1.270 |
| Unemt | 1.337 |

Consumer Saving

In the revised regression models for consumer saving, the exclusion of political stability in the second model and current account balance in the third model did not alter the overall model significance. Similarly, both the R-squared and adjusted R-squared values remained unchanged, with the exception of a modest improvement in the variance inflation factor in the third specification. Consistent with the findings from the consumer expenditure model, the third model can thus be regarded as the most appropriate specification for explaining consumer saving behavior in Türkiye.



Consumer Saving: Model 02 & 03

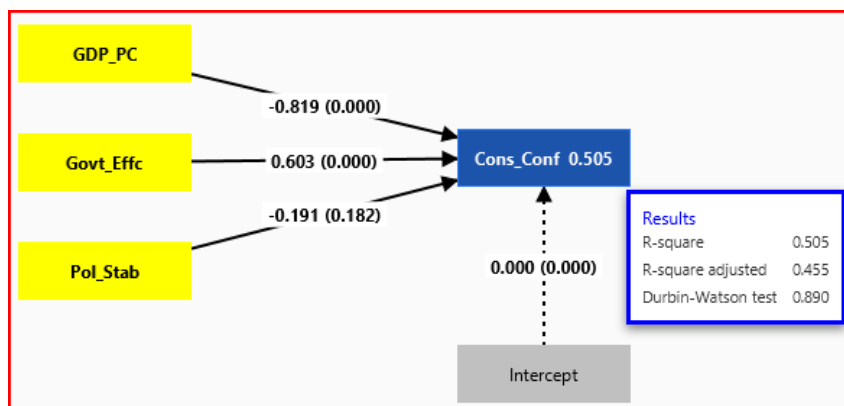
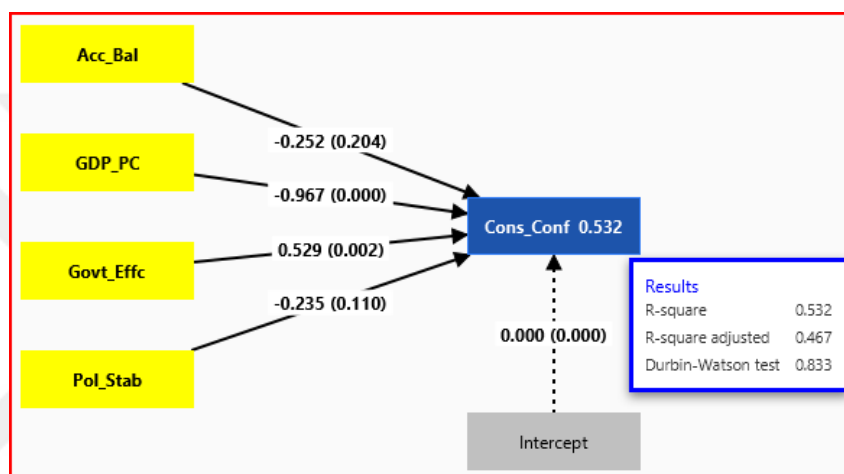
| | Cons_Sav |
|---------------------------|-----------------|
| R-square | 0.985 |
| R-square adjusted | 0.984 |
| Durbin-Watson test | 1.423 |

| | VIF |
|------------------|------------|
| GDP_PC | 1.539 |
| Govt_Effc | 1.270 |
| Unemt | 1.337 |

Consumer Confidence

In the second model, the exclusion of unemployment from the regression analysis enhanced the overall model fit. While the R-squared value remained unchanged, the adjusted R-squared improved by 1.5%, suggesting a modest gain in explanatory efficiency. The Durbin–Watson statistic also remained stable, indicating no additional

autocorrelation concerns, whereas the variance inflation factor (VIF) decreased, thereby alleviating multicollinearity issues. In contrast, the exclusion of current account balance in the third model reduced the model's explanatory power, as reflected in declines in both the R-squared and adjusted R-squared values. From the perspective of model selection criteria, the second model demonstrates greater parsimony by achieving a more efficient balance between explanatory power and model simplicity, while also improving the reliability of parameter estimates. Therefore, the second model can be considered the most appropriate specification for this study.



Consumer Confidence: Model 02 & 03

| | Cons_Conf |
|---------------------------|-----------|
| R-square | 0.532 |
| R-square adjusted | 0.467 |
| Durbin-Watson test | 0.833 |

| | VIF |
|------------------|------------|
| Acc_Bal | 2.335 |
| GDP_PC | 2.283 |
| Govt_Effc | 1.579 |
| Pol_Stab | 1.262 |

The comparative assessment of the three models—consumer expenditure, consumer saving, and consumer confidence—provides meaningful insights into the determinants of household economic behavior in Türkiye. Across the specifications, the results suggest that the removal of statistically insignificant variables improves model parsimony without substantially compromising explanatory power. For consumer expenditure and consumer saving, the third models emerge as the most suitable specifications, as they achieve a more streamlined structure while maintaining stability in R-squared and adjusted R-squared values, alongside minor improvements in multicollinearity. By contrast, in the case of consumer confidence, the second model performs more effectively, as the exclusion of unemployment enhances adjusted R-squared and reduces multicollinearity, while the third model results in weaker explanatory capacity.

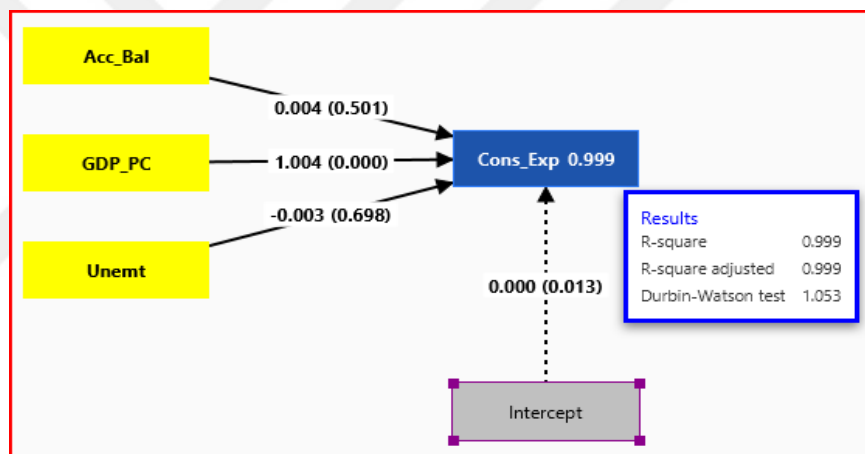
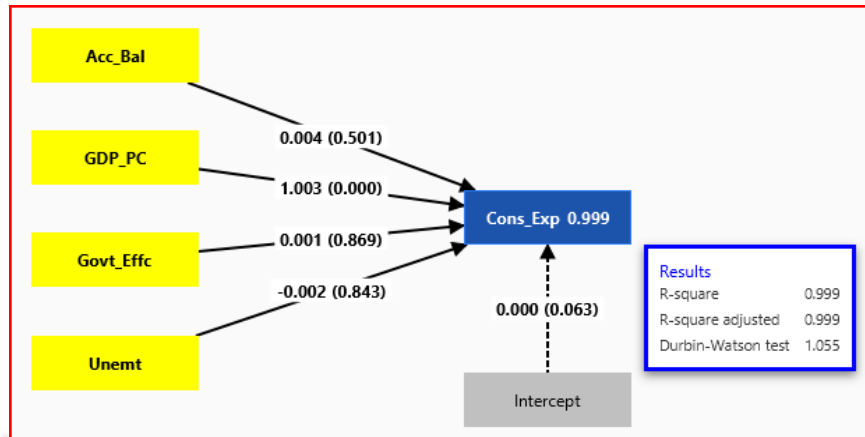
Overall, these findings underscore the importance of adopting parsimonious models tailored to specific aspects of household behavior in Türkiye. While consumer expenditure and saving dynamics can be adequately explained with simplified specifications that exclude non-contributory variables, consumer confidence appears to be more sensitive to labor market conditions, highlighting the role of unemployment in shaping household perceptions of economic stability. Taken together, the analysis suggests that parsimonious yet robust models not only enhance statistical validity but also provide more reliable insights for policymakers seeking to understand and influence consumer behavior in the Turkish economy.

Appendix B (Case of Bangladesh)

Consumer Expenditure

In the first model, political stability was found to be statistically insignificant. Its removal in the second model did not produce any notable changes in the overall results. Similarly, the exclusion of an additional variable in the third model did not result in significant alterations in explanatory power. However, the variance inflation factor

(VIF) improved substantially, suggesting a marked reduction in multicollinearity. Accordingly, the third model is considered the most appropriate specification for this study, as it balances explanatory adequacy with improved model robustness..



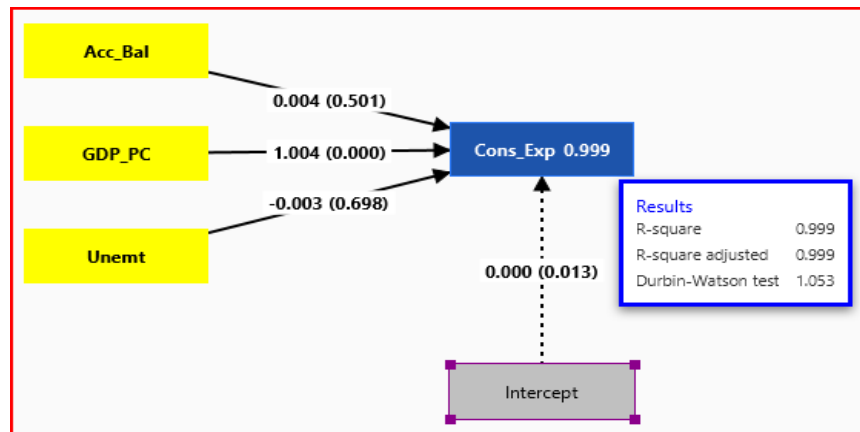
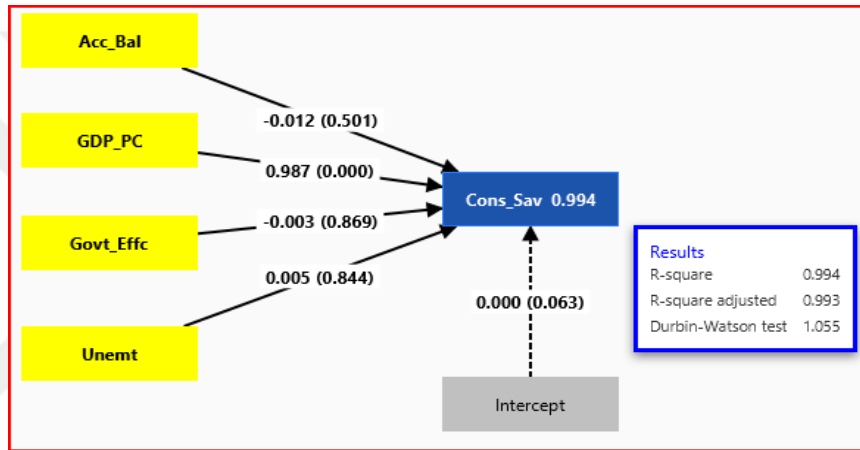
Consumer Saving: Model 02 & 03

| | Cons_Exp |
|---------------------------|-----------------|
| R-square | 0.999 |
| R-square adjusted | 0.999 |
| Durbin-Watson test | 1.053 |

| | VIF |
|----------------|------------|
| Acc_Bal | 1.314 |
| GDP_PC | 2.419 |
| Unemt | 1.986 |

Consumer Savings

Similar to consumer expenditure, political stability was found to be statistically insignificant in the first model. Its removal in the second model did not translate into any meaningful changes, as both the R-squared and adjusted R-squared values remained at their maximum levels across the two models. Further, the exclusion of another variable, government effectiveness, in the third model also did not alter the significance levels of the remaining predictors. However, the variance inflation factor (VIF) showed a considerable improvement, indicating a reduction in multicollinearity. This enhancement suggests that the third model offers greater reliability and robustness, making it the most suitable specification for this study.



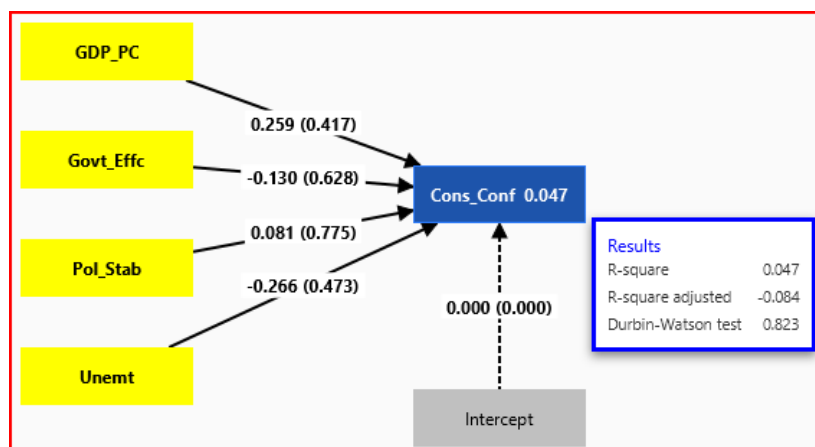
Consumer Savings: Model 03

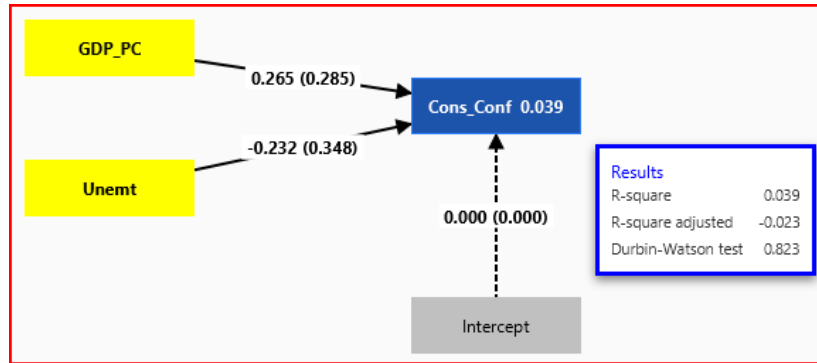
| | Cons_Sav |
|---------------------------|----------|
| R-square | 0.994 |
| R-square adjusted | 0.993 |
| Durbin-Watson test | 1.053 |

| | VIF |
|---------|-------|
| Acc_Bal | 1.314 |
| GDP_PC | 2.419 |
| Unemt | 1.986 |

Consumer Confidence

In the first regression model, none of the explanatory variables were found to be statistically significant in explaining consumer confidence. The current account balance, identified as the least significant variable, was excluded in the second model; however, this adjustment did not yield any improvement in the statistical significance of the remaining predictors. Although the adjusted R² remained negative, a marginal improvement was observed. In the third and final specification, two additional insignificant variables were removed, yet the overall results remained unchanged. Accordingly, the findings suggest that none of the selected macroeconomic variables can adequately account for variations in consumer confidence in the context of Bangladesh. This outcome indicates that consumer sentiment may be more strongly influenced by external or non-macroeconomic factors, such as political developments, social dynamics, or global economic conditions, rather than by the traditional economic indicators considered in this study.





Consumer Confidence: Model 02 & 03

| | Cons_Conf |
|---------------------------|------------------|
| R-square | 0.039 |
| R-square adjusted | -0.023 |
| Durbin-Watson test | 0.823 |

| | VIF |
|---------------|------------|
| GDP_PC | 1.920 |
| Unemt | 1.920 |

CURRICULUM VITAE

Abu TAHER

Education

| Degrees and Certifications | Institution | Year | Result |
|-------------------------------------|--|------------|--------------------------------|
| MBA (Business Administration) | Istanbul Sabahattin Zaim University | Continuing | CGPA 3.71 (On a Scale of 4.00) |
| BBA (International Trade & Finance) | Istanbul Sabahattin Zaim University | 2021 | GPA 3.87 (On a Scale of 4.00) |
| H.S.C (Alim) | Bangladesh Madrasah Education Board, Dhaka | 2014 | GPA 5.00 (On a Scale of 5.00) |

Work Experience

- Export Manager, Global Naturel Gida San. ve Tic. A.S. (Since Feb 2025)
- Finance Officer, Istanbul Medipol University (Jul 2024 - Jan 2025)

Interested Areas

Marketing, Political Economy, Behavioral Economy, Consumer Affairs, Personal Business & Entrepreneurship

Language Skills

Bangla : Native Language:

English & Turkish : Advanced

Urdu, Hindi, & Arabic : Intermediate

Software Skills

MS Office Programs (Word, Excel, PowerPoint) : Advanced

SPSS, AMOS, Smart-PLS, Stata, Eviews for qualitative analysis : Intermediate