CHAPTER-I
INTRODUCTION

1.1 Introduction:

During only period of time an entrepreneur will be have sold finished output to consumers or to other entrepreneur for a certain sum which we will designate as A. He will also have spent a certain sum. Designate by A1 on purchasing finished output from other entrepreneurs and he will end up with capital equipment which term includes both his stocks of unfinished goods or working capital and his stocks of finished goods, having a value G. Some part however of A+G-A1 will be attributable not to the activities of the period in question, but to the capital equipment which he had at the beginning of the period. We must therefore in order to arrive at what we mean by the income of current period, deduct from A+G-A1 a certain sum, to represent that part of its value which has been (in some sense) contributed by the equipment in inherited from the previous period. The problem of defining income is solved as soon as we have found a satisfactory method for calculating this deduction.¹

1.2 Concept of Income:

There are two possible principal for calculating deduction, for finding concept income each of which has a certain significance one of
them in connection with production and the other in connection with consumption let us consider them in turn.

A. The actual value $G$ of the capital equipment at the end of the period is the net result of the entrepreneur, on the one hand, having maintained and improved it during the period, both by purchases from other entrepreneur and by work done upon it by himself, and on the other hand having exhausted or depreciated it through using it to produce output, If he had decided not to use to produce output. There is nevertheless, a certain optimum sum which it would have paid him to spend on maintaining and improving it. Let us suppose that, in this event, he would have spent $B$ on its maintenance and improvement and that having had this spent on it, it would have been worth ‘$G$’ at the end of the period. That is to say, $G’-B’$ is the maximum net value which might have been conserved from the previous period if it had not been used to produce $A$, let us call this quantity namely.

$$(G’-B’)-(G-A)^2$$

Which measures the sacrifice of value involved in the production of $A$ the user cost of $A$ user cost will be written $U^3$.

B. We turn, next to the second of the principals referred to above. We have dealt so far with that part of the change in the value of the capital equipment at the end of the period as compared with its value at
the beginning which is due to the voluntary decision of the entrepreneur in seeking to maximize his profit. But these may in addition, be an involuntary loss in the value of his capital equipment, occurring for reasons beyond his central and irrespective of his current decisions. On account of a change in market values, wastage by obsolescence or the more passage of time or destruction by catastrophe such as war or earthquake. Now some part of these involuntary losses, whilst they are conavoidable are? broadly speaking not unexpected, such as losses through the lapse of time irrespective of use and also ‘normal obsolescence which as professor Pigou expresses it, “Is sufficiently regular to be foreseen if not in detail, at least in the large,” including we may add, those losses to the community as a whole which are sufficiently regular to be commonly regarded as “insurable risks”. Let us ignore for the moment the fact that the amount of the expected loss depends on when the expectation is assumed to be framed and us call the depreciation of the equipment, which is involuntary but not unexpected i.e. the excess of the expected depreciation over the user cost, the supplementary cost, which will be written V. It is perhaps, hardly necessary to point out that this definition is not the same as ‘Marshall’s’ definition of supplementary cost. Though the undertaking idea, namely of dealing with that part of the expected depreciation which does not enter into prime cost, is similar.
1.3 Types of Income:

Some income concepts are discussed in concept of National income. These are as below:

1.3.1 Income from domestic product accruing to the private sector:

This is that portion of net domestic product at factor cost which accures to the private sector. It is obtained by subtracting from national domestic product (NDP) at factor cost. The income accruing to government administrative departments and government enterprises.⁵

1.3.2 Private Income:

This includes income obtained by individuals from all sources plus the retained profits of corporations. It can be obtained from the income from domestic product accruing to the private sector by adding the following incomes to it.

i) Net income from abroad

ii) National debt interest

iii) Government transfer payments and

iv) Other transfers from the rest of the world.⁶

1.3.3 Personal Income:

The total of income received by individuals from all sources in a year is personal income. It is equal to private income minus the retained profits of corporation and corporate profit taxes.⁷
1.3.4 Personal Disposable Income:

As is clear from the name itself this is the actual amount of income that is left with individuals to be used as they please. Since individuals are required to pay direct taxes, fines, fees etc to the government from the personal income leaves us with personal disposable income.  

1.4 Distribution of Income:

Distribution of income has been a burning topic and a controversial question in the whole history of human race. In fact many revolutions have taken place as a result of the extreme inequalities in the distribution of income and its evils effects. For example, the main cause of French revolution was the injustice done to the poor classes due to the extreme inequalities of income, wealth and power, “Equality, Liberty and Fraternity” was the slogan of French revolution.

Karl Marx, who started the communist movement attacked bitterly, in his book ‘Das Capital’ the extreme inequalities of Income found in the capitalist countries. He advocated the elimination of the rich class. The capitalist by a revolution. But many other socialists believe in bringing about revolution in inequalities of income by peaceful methods.

But what are the causes of income inequalities? Not only economic factors, but social factors as well as responsible for inequalities in income. Incomes are divided in two ways.
A. Income is obtained by doing work, physical or mental

B. Income can be derived from the ownership of property or capital. Interest on capital, rent on land, rent on houses, profit on capital, invested in industry are all incomes from property or capital.

Income from work or labour is usually called earned income and income from property is popularly known as concerned income. Differences both in earned income ad unearned income, we have to find out.

A. Why some people earn higher wages or salaries than others?

B. Why some people own more capital or properly than others?

Many of the largest income and hence money of the extremes of income inequalities result from the ownership of large amounts of capital. Capitalists and land lords, who do no useful work, obtain very large income from their property but it must not be presumed that large incomes cannot be earned from doing work. Successful film stars in India Raj Kapoor, Dev Anand, Ashok Kumar, Hema Malini and Rajesh Khanna earned huge incomes from their work moreover in western countries as also in India, high officials of the business firms and government earn very huge incomes. 9
1.5 Differences in Income from Work – (difference in earned income and its causes):

Some people get wages for their work and some obtain very low wages. There are many factors which are responsible for the differences in wages. In some occupations which people can adopt in the modern complex economy. Different occupations carry different wages. In some occupations like us skilled work people get low wages. The following are some of the causes of differ in earning from work.10

1.5.1 Differences in Natural Ability:

An obvious cause of the inequality of income lies in the different abilities of human beings. These differences in the abilities are to a large extent in born and natural. It is not true that all men are born equal. They are born with different degrees of intelligence, energy and ability some men are stronger and more powerful physically than their follows and some others possess greater musical and artistic ability than others. Some people show greater aptitude and ability for medicine or engineering than others. Psychologists have demonstrated that various degrees of intelligence are possessed by different people. Intelligence tests applied to thousands of men recruited for armed forces and other services in our country as well as in others have proved beyond doubt that. These are marked differences in the mental levels of different persons examined
such differences of intelligence or ability among different people are largely hereditary while it is true that differences in ability of different people can be considerably modified by the influence of environment, education and training but nature has endowed each person at birth with different capacities and these capacities get limit to the achievement of man beyond which one cannot hope to go. It is but natural that the differences in natural ability should lead to inequalities of income.

Those who are gifted with greater intelligence and superior ability will naturally be able to earn more income than those who are fully equipped with intelligence and ability. It one is born with genius of the right kind, one is sure to grow rich, while a person with very low ability will usually remain poor.11

1.5.2 Differences in Education and Training:

All inequalities of income cannot be explained only by the differences in natural ability. Another important cause of inequality in incomes is the differences of education, training and experience possessed by the people.

Skilled workers who posses greater education and training for job obtain higher wages than the unskilled workers. Again doctors and engineers who have to spend much time energy and money to acquire education and training for their respective work earn higher incomes,
similarly managers and other high officials of business firm receive higher salaries because they possess greater education, training and experience likewise, Lawyers and other professional people with greater knowledge, training and experience usually fall into the higher income groups.

1.5.3 Inequalities of opportunity:

Another important reason for inequality of incomes is the unequal opportunity for different people. People are not only unequally gifted with intelligence and ability at birth but they are also offered unequal advantages and opportunities by the environment in which they are places. Opportunities to rise in life and earn higher incomes are by no means equal for everyone. Those who are born in rich families get a favourable start in life. Owing to the richness of their parents, they are in better position to get good education and training required for the high paid occupations. They would have some highly places friends and relatives in public life. Therefore when the son of well to do families are ready to makes their own living these high-up friends and relatives can secure them good jobs. Moreover inherited wealth of their rich parents can yield them large income or capital with which they can start business of their own.
On the other hand, those who are unfortunate to be born in poor families can enjoy no such advantages and opportunities their health may be impaired by the deficient food and insanitary conditions of living. Sons of the poor parents cannot hope to get good education and training because their parents have not enough money to spend on their education and training to spend their education and training. Sons of poor people may have greater native talent and superior natural capacity, but they are not provided with enough opportunity to develop their natural talent and capacity. Moreover, they inherit no wealth with which they should start their business. It is no wonder that such inequalities of opportunity lead to great inequalities of income.

1.5.4 Differences in Scarcity:

The fundamental cause of difference in income earned from work is the difference in degree of Scarcity of a particular type of labour. It is all a matter of demand and supply. The price of a particular type of labour depends. On the one hand, upon the number (supply) of the people having required qualifications and training for the job and the other how much demand is there for that particular type of the labour to fill the jobs. Greater the scarcity of particulars type of labour in relation to demand the greater will be wages of that particular type of labour. As is well known, the wages of unskilled labour is due to the abundance of unskilled
labour are usually very low. The lowness of wages of unskilled labour relative to the demand for it salaries of doctors are quite high because the supply of doctors is very short in relation to the demand for them.

1.5.5 Differences in Income due to unemployment and underemployment:

In developing countries like India a major factor responsive for inequalities of income is the existence of huge unemployment and underemployment. Those who are unemployed or underemployed cannot obtain sufficient income to meet their subsistence expenditure. According to the estimates of poverty made in India. 40 to 50 percent of the population live below the poverty line i.e. earn income below Rs. 20 at 1960-61 prices. The main cause of such a large population living below the poverty line or having very meagre incomes is existence of open unemployment and acute under-employment which does not enable the people to earn sufficient incomes for their subsistence. Those people who are able to get employment at reasonable wages or those who earn sufficient incomes through self-employment, they rise above the poverty line. And those who remain unemployed and severely under-employment they are forced to live below the poverty line.

Majority of the poor people live in villages in India and they are either landless agricultural labourer or tenants or small and marginal
farmers who because of lack of resources cannot get adequate amount of self-employment to earn sufficient income for the minimum subsistence. Nor do they get wage employment at reasonable wages. It is thus clear that the existence of huge unemployment and under-employment creates extreme inequalities of income.

1.5.6 Increase in Income inequalities due to Price Inflation:

As a result of rise in prices or the occurrence of inflation, inequalities of income in the country increase. When prices are rapidly rising in a country, the purchasing power of the people in low and middle income groups declines and as a result their standards of living also fall. On the other hand, business class benefits from the price inflation because the rise in prices generally rises their profits and incomes. The cost of production of the producers, manufacturers and traders does not rise as much as the prices during the periods of inflation. Therefore, due to the decline in purchasing power and the real incomes of the low and middle income groups on the one hand and the rise in income or profits of the business and trading classes on the other inequalities of income in the country increase.

1.5.7 Social Factors:

Social factors also play an important role in causing in equalities of income. Mrs. Barbra Wooton, a prominent economist, has laid a great
stress on the importance of social factors in bringing about differences in incomes between different people. Earning of a person according to her depend upon the social status accorded to the job done by that person. For example, in our country backward classes like Harijan people who perform the job of C learning and sweeping which have a very low status are given very low wages. On the other hand administrative posts like the I. A. S. have superior social status and therefore carry very high salaries.

As the social status of women in the society is lower than that of men. Therefore women are usually paid lower wages than men.

1.5.8 Lack of Mobility:

Another reason for the existence of unequal earning from work is the lack of mobility on the part of workers. It is difficult for the workers to enter the better paid occupations or to move to those places where are comparatively high. There are strong barriers to both occupational and regional mobility. As mentioned earlier, many persons cannot enter the better paid occupations because their parents cannot afford to pay for necessary education and training required for those occupations further workers may not move to the places or regions where wages are high on account of high cost of movement from one place to another. Moreover mobility may be hindered by social factors such as costs. Joint family, languages and religion. The result of the lack of mobility on the part of
the workers is that earning in some occupations or places continues to be higher than in others.

Barriers to the movement of workers to better paid occupation may be places by low or trade unions. Sometimes law prevents people from entering the better paid occupations with view to safeguard the interests of those already employed trade unions also hinder the entry into occupations by restricting the number of learners or apprentices. Moreover, people already employed is well paid occupations or their associations or unions may debar other from entering the occupation by imposing unnecessarily high examination or extreme fee on candidates willing to adopt that occupation.

1.6 Incomes from property or Unearned Incomes:

We have noted above the various factors which lead to the differences in income from work. But an individual’s obtains income not only from work, but also from the property owned by him. The chief examples of property are land, factories, stocks or shares of the company’s income from the ownership of the land and capital is popularly known as unearned incomes. The existences of unearned income is an outstanding features of capitalism. The total property for a country is not equally distribution among the various members of the society. There exits differences in the ownership of property. Some own a
very large amount and many very little inequality in the ownership of property is the most important reason for the inequality of incomes. Those who own large property are in a position to relieve large incomes. The owners therefore manage not only to live but to live well even without working.

1.7 Criticism of Inequality:

Inequalities of income have been the subject of bitter attack by many thinkers and social referness. Various criticism have been directed at the great inequality in the distribution of income among the people or fair share for all has been the demand of many people equality of incomes is an essential feature of a socialist philosophy. The following are the chief arguments put forward against inequality of incomes.12

1.7.1 Ethically Undesirable and Socially Unjust:

A basic argument against extreme inequalities of income is that they are ethically undesirable and socially unjust. If men are born equal, why should some of them enjoy. Larger incomes and superiors opportunities? Owing to the great inequality in the distribution of income we find that while on the other hand, a handful of rich people roll in luxurty the majority of the people live in poverty and great affluence to exist side in the same society.
1.7.2 Hindrance to the Maximization of aggregate satisfaction:

Another important criticism is that inequality of income prevents the maximization of aggregate satisfaction from the consumption of National incomes. This criticism is based upon the law of diminishing utility as applied to money. According to this law as over income increases beyond a certain amount extra satisfaction derived from each addition to the income goes on diminishing. In other words, Marginal utility of money to the poor people. A person will spend the first rupee relived by him on those goals which he desires most i.e. on goods whose marginal utility is high. As their most urgent wants become satisfied. The person will spend additional rupees of his income on increasingly frivolous, lower marginal utility items. Thus a rich person whose income is very large will spend marginal units of money is satisfying less, urgent wants, where as a poor person where income is low will be spending marginal units of money on basic very high marginal utility goods.

1.7.3 Misguidance of Production:

Inequality in the distribution of income is wasteful because it leads from the social point of view, to the misguidance or misdirection of production. Prices of various goods in the market do not indicate the intensities of human desires or needs for the goods. Prices indicate the demands of those goods and not the wants or needs for them.
Entrepreneurs in following their profit motive will produce those goods for which the demand is greater and not for which desires or need are more urgent. This price system would direct production into the channels where they would best satisfy the demands of the people. But demand is made up of desire backed by ability to pay. Peoples desires becomes effective in the market only when it is backed by money income. The people whose incomes are large can cause production to respond who are poor may fail to respond to their most trivial wants. But those who are poor may fail to get society to produce even for their most urgent needs. Therefore, under conditions of large inequality in incomes, while luxuries are produces for the rich, the poor people go without even the necessities of life.

“If the goal of economic welfare is maximum satisfaction of the wants of all and not merely of a favoured few this situation is wrong and if we regard all consumers as human beings whose wants are equally valid them if it wasteful to later to the unimportant desires of some while ignoring. The very pressing needs of the others the price system. Therefore can never be really satisfactory and economical units a greater measure of equality is achived.

1.7.4 Inequality of Opportunity:

Income inequality leads to inequalities of opportunities for getting
education and training. The sons of the poor are unable to get education and training required for entering into well paid occupations. Since their parents cannot afford to spend huge sums on their education and training. On the other hand, those who are fortunate to be born in rich families they can enter the highly paid occupation by accruing required education and training. Moreover the sons of the rich parents get enough capital and wealth with which they can start the business of their own and earn more money be gets money and thus inequality goes on breeding more inequality.

1.7.5 Economically Wasteful:

Another criticism is that extreme inequalities are economically wasteful. There is waste at both ends of the income scale. In the first place, the poor people who are at the base of income pyramid, get so small income that they cannot obtain even minimum of foods, clothing and shelter needful to maintain their physical and mental health. As a result the productivity of these poor people is very low. Much efficiency cannot be accepted from under nourished, poorly-clothed and improperly housed labourers. When incomes are so small that they are inadequate for current consumption. People find it impossible to save for future contingencies such as periods of illness. Unemployment, injury etc. and thus the condition of economic security are created. They efficiently of
the workers suffer as a result of this economic insecurities thus there is a great loss of productive power due to the very low incomes of the poor people. Out of poverty groups disease hunger, vice and crime. If everyone received income large enough to maintain himself and his family on a standard of living regarded as maximum for health and comfort the health and moral of the working classes would be greatly improved with consequent increase in their productive capacity.

The wasteful of the very income received by millions of the people does not end with the relative inefficiency of the present day workers. The evil effects of the poverty of the people on their young children must also be taken into account. When the children of the poor grow up under miserable conditions of living and in environment of dust, disease and despair, when they are unable to obtain adequate food, clothing, shelter and medical attention and when they cannot get opportunity to receive necessary education, society suffers another great loss. When the physical and mental capacities of the children of the low income people are not fully developed, productive capacity of economic is sound to suffer.

1.7.6 Non-economic Inequality:

Economic inequality fosters non-economic inequalities. In other words, income, inequality creates political and social inequalities. Under
democracy theses prevails in law political equality. Everybody has equal voice in politics that is each has one vote. Everybody has equal right to be elected to parliament or legislative assembly. However in practice it is the rich people who can afford to stand for such election, since the elections is very costly affair. Moreover rich people are in a position to influence many voters by virtue of their wealth.

Further rich people are often able to bride the members of parliaments and succeed in getting laws passed in their favour. Thus we see that the rich people yield greater political power than the poor people.

A rich man also enjoys a greater social status than a poor man. In this materialistic world, the merit of a person is judged by the wealth and riches he possesses. Society honours its rich people, while poor people are neglected.

Further, more productive, more skilled and more diligent people also deserve greater reward. Social justice requires that the man or women who works diligently or efficiently or bears more responsibility than what are justified on the grounds of incentives and such other considerations as just pointed out. The present inequalities of incomes are so glaring that they are hardly justified on grounds of in incentives. The prevailing large inequalities of income are economically bad, socially
unjust and politically undesirable. Therefore, there is a permanent need for bringing down the existing inequalities of income.

According to above explanation concept on income is very useful for all kinds of economic factors. Many factors are related with income. Therefore today income from various ways had made soul of human life.

1.8 Concept of consumption:

Human needs are unlimited and their structure is different kinds. But man can complete this need by multipal use of wealth and factors. Keynes was not interested in the factors determining the aggregate supply since he was concerned with the short run and the existing productive capacity. We will also not explain in detail the factors. Which determine the aggregate supply and will confine ourselves to explaining the determination aggregate demand. Aggregate demand consists of two parts-consumption demand and investment demand. In this way we will explain the consumption demand and the factors on which it demand and how it changes over a period of time. The investment demand will be explained in the another way, but consumption demand depends upon the level of income and the propensity to consume. The propensity to consume is also called consumption function. We shall explain below the meaning of the consumption function and the factors on which it depends.
1.9 **Meaning of Consumption:**

Some economic thinker were define consumption as per below.\(^{13}\)

A. “The application of wealth for the direct satisfaction of wants is known as consumption.”

B. According to Ely, “Consumption in its broadest sense means the use of economic goods and personal service in the satisfaction of human wants”.

C. Meyers say, “Consumption is the direct and final use of goods or services in satisfying the wants of free human beings.”

1.10 **The propensity to consume:**

Whatever be the society the main purpose of every economic activity be it production or exchange is consumption. In fact it is consumption that motivates man to produce and if somehow it could be possible for him to achieve a state of wantlessness in which consumption would not be needed all productive activity would come to a stand till but the state of wantlessness is as exclusive as a mirage and the multiplicity of wants remain a facts of life. Hence, most people spend major part of their income on commodities which satisfy their wants directly. Eggs, bread, cloth, furniture etc. belongs to this category and are called consumer goods.
In India where about 40 percent of the households are below the poverty line a very large number of people spend every rupee, which they earn on consumer goods. But many people particularly the ones who belongs to one elitist group on the other, find that their incomes are large than what they need for consumption. These are the people who contribute most to the national saving. This is true of all third world countries, In developed countries, these may not be many people below the poverty line. But with the given income distribution, even in the U.S.A. and other capitalist countries a large number of people find it difficult to save. Thus saving is a prerogative of a few, be it a developed or an undeveloped country. This fact is revealed only when we get disaggregated data for a country. The national income accounts for most countries, however conceal this information. They only tell us that irrespective of their levels of income each nation spends only a part of its disposable income on consumer goods. In developed countries where as 75 to 80 percent of the national income is spent on consumption, in underdeveloped countries 85 to 90 percent of even more of the national income is consumed.14
1.11 The Consumption Function:

Just as in micro economic theory, price is singled out as the primary determinant of the quantity taken, in macro-economic theory Keynes singled out income as the main determinant of consumption.

“The consumption function is the assumed direct relationship between the national income level and the planned or desired consumption expenditure.”

Algebraically the basic relationship between countries consumption spending and its national income is shown as

\[ C = f(Y) \]

in which

\( C \) = stand for the consumption spending and

\( Y \) = stand for the national income.

When consumption function is written in this from it is suggested that the level of consumption various with the size of national income. It is however, not assumed that income is the sole determinant of consumption expenditure. Many subjective as well as objective factors influence consumption expenditure writing consumption function in the form.

\( C = f(Y) \) assumes only that the influence of other factors is of little consequence due to stability in them.
According to Keynes ‘while increase in income is accompanied by increase in consumption is invariably less than the rate of increase in income. Keynes has called this tendency as the ‘Psychological law of consumption’

Keynes most probably never use of any statistical information to discover this fundamental law. As a matter of fact, when he wrote ‘the general theory’ no time series data were available pertaining to national income or national expenditure for any country. Hence he relied mainly on general observation and deductive reasoning to discover functional relationship between income and consumption. In Keynes’s analysis what is called income is in fact disposable income. Keynes’s psychological law of consumption has been empirically tested in the recent decades by a number of economists.\textsuperscript{15}

\textbf{1.12 Factors Influencing Consumption:}

Data from the various budget studies covering several countries firmly support the hypothesis that there is stable relationship between the consumption expenditure and income. Nevertheless, influence of factors other than income cannot be over looked as of no consequence at all.

Keynes himself stated in General theory, “The amount that the community spends on consumption obviously depends”

A. Partly on the amount of its income.
B. Partly on the other objective attendant circumstances

C. Partly on the subjective needs of the psychological propensities and habits of the individuals composing it and the principal on which the income is divided between them.¹⁶

1.12.1 The Objective Factors:

The main objective factors which are believed to be having some influence on the propensity to consume are the following.

i) The Rate of Interest:

The rate of interest was regarded by the classical economists as the sole determinant of the size of saving in an economy. An a priori case can also be made that rational people will save more at high interest rates than at low interest rates. J. M. Keynes however rejected the classical approach and asserted that the saving of an economy’s functionally related to its national income. Today most economists find themselves in agreement with Keynes but they do not appear to be firmly convinced of what they say. Their qualifying statement reflects their combivalence in this regard. One thing about the rate of interest is, however very clear that unless it is very high, it will hardly have any impact on the behavior of consumers. High rate of interest, nevertheless, later people from borrowing particularly for consumption purpose. Lenders also sometimes avoid non-essential consumption when they hope to get high return on
their savings, but any generalization is difficult to make because these are always some people in the society who will like to divide benefit between the present and the future and hence save less if they find that their small savings ensure large aggregate returns.

ii) **Accumulated Wealth:**

The amount accumulated wealth is possibly an important influence on consumption expenditure. Wealth holding in a capitalist society is done by the people either to provide against uncertainties of life or to meet some expenditure in future whatever be the reason for wealth holding a person derives less and less utility from each successive addition to the existing stock of wealth and therefore, his desire to add to future wealth through reducing current consumption diminishes as his stock of accumulated wealth increases. This is entirely an a priori argument based on Pigou’s abstract model of consumer behavior and has not been subjected to empirical testing.

iii) **Capital Gains:**

Capital gains are usually of windfull nature and therefore not allowed for in calculating net income. Keynes recognized this fact that capital gains exercise considerable influence on consumption spending. His speculation was that the American boom of late twenties might have been prolonged by the increased consumption spending due to large
capital gains made by the people in the share market. Most economists. However, ignore capital gains as a factor affecting as he attempts to include capital gains in a statistical consumption function.

IV) Distribution of Income:

Absolute level of income remaining unchanged, a redistribution of income will possibly alter the amount of consumption. Why this happens is not difficult to understand. People with smaller incomes usually spends everything on consumer goods. It is as a matter of fact, imperative for their subsistence. In contrast affluent people in spite of their indulgence in wasteful consumption are able to save a lot. People falling in middle income brackets usually find that little surplus is left after they have provided for their necessary expenditure. Hence greater the inequality in income distribution in a country larger will be the amount saved. A redistribution of income involving a transfer of income from richer classes to poorer section of the society will in all probability, reduce the saving. Let us consider a hypothetical example of an economy in which the top 10 percent household receive 70 percent of the national income, whereas half of the population living below the poverty line gets only 10 percent of the population get the remaining 20 percent of the national income. In such a country, obviously most of the saving will be done by the top 10 percent households. In case they made to part with some of
their income to be distributed among they are made to part with some of
t heir income to be distributed among the poor, their saving will fall
whereas the poor, hungry and deprived as they are will spend it on
consumer goods. But changes in the distribution of income in short period
are moderate and thus exercise little influence on the propensity to
consume moreover, in an economy where consumption function takes.
C=a+by from redistribution of income will have no influence on the
aggregate consumption expenditure. Unless the marginal propensity to
consume declines as income rises, any transfer of income from the rich to
the poor will not affect aggregate saving materially.

v) **The Consumer Credit:**

In consumption oriented societies of the most, there is to create for
durable goods. A large number of householders available credit facilities
for buying automobiles, televisions, music system, refrigerates etc. In the
absence of consumer credit, demand for these and such other articles
would decline substantially because many consumers do not have enough
cash or liquid assets to finance these purchases. They will have to wait
until sufficient funds are accumulated to make these purchases. This will
obviously take along time and the aggregate consumption expenditure
over this period will be relatively low.
1.12.2 The subjective Factors:

Besides quantifiable specific objective factors, Keynes has identified some motives which lead individuals to retain from spending out of their income. They are as follows

i) To build up a reserve against contoreseen contingencies

ii) To provide for an anticipated future relation between the income and the needs of the individuals or his family different from that which exists in the present, as for example in relation to old age family education or the maintenance of dependents.

iii) To enjoy interest and appreciation i.e. because a larger real consumption at a later dates is preferred to a smaller immediate consumption.

iv) To enjoy a gradually increasing expenditure since it gratifies common instinct to look forward to gradually improving standard of life rather than the contrary, even though the capacity for enjoyment may be diminishing.

v) To enjoy a sense of independence and for the power to do things, though without a clear idea or definite intention of specific action.

vi) To secure a massed monocavre to carry out speculative or business projects.

vii) To be quest a fortune
viii) To satisfy pure miserliness i.e. unreasonable but insistent inhibitions against all of expenditure as such.

Keynes has called these motives for saving as the motives of precaution, foresight, calculation, improvement, Independence, enterprice, Pride and avarice.

The motives for saving by the state and the public and private sector corporation are somewhat different. Keynes has discussed these motives under such headings as motive of enterprise, the motive of liquidity, the motive of improvement and the motive of financial prudence.

1.13 **Meaning and Definition of Consumer Surplus:**

Consumer surplus is the most important concept, which is related to consumption. Each and every consumer trying to achieve more satisfaction from goods and service. Therefore it is necessary to explain concept of consumer surplus.

i) **According to Marshall,** “The excess of the price which he would be willing to pay rather than go without the things, over that which he actually does pay, is the economic measure of this surplus satisfaction. It may be called consumer surplus.”

ii) “The difference between what we would pay and what we have to pay is known as consumers surplus” - **By Penson**

31
iii) **According to J. K. Mehata**, “Consumers surplus obtained by a person from a commodity is the difference between the satisfaction which he derives from it and which he forgives to procure that commodity”\(^{19}\)

iv) **According to Taussing**, “Consumption surplus is the difference between the sums which measures the total utility ad that which measures total exchange value.”\(^{20}\)

With help of above few definitions, we can explain the concept consumer surplus.

### 1.14 Concept of consumers Sovereignty:

Consumer Sovereignty is a term used in economics. It refers to consumers determining the production of goods. The term can prescribe what consumers should be permitted or describe what consumers are permitted. The term was coined by William Hutt in his 1936 book “Economists and the Public”\(^{21}\)

In unrestricted markets, those with income or wealth are able to use their purchasing power to motivate producers. Customers do not necessarily have to buy and, if dissatisfied can take their business elsewhere, while the profit seeking sellers find that they can make the greatest profit by providing the best possible products for the price (or the lowest possible price for a given product).
To most neoclassical economists, complete consumer sovereignty is an ideal rather than a reality because of market failure. Some economists of the Chicago school and the Austrian school see consumer sovereignty as a reality in a free market economy without interference from government or other non-market institutions or anti-market institutions such as monopolies or cartels. That is, alleged market failures are seen as the result of non-market forces.

The notion that consumers ultimately determine what goods and services are produced and how the economy’s limited resources are used based on the purchasing they make. Consumers thus reign over the economy as sovereign rulers. Like most notions this one captures an essential dimension of economic behavior, but it also has a notable qualification. Consumers are king consumer sovereignty means that buyers ultimately determine which goods and service remain in production. While business can produce and attempt to sell whatever goods they choose, if the goods fail to satisfy the wants and needs consumers decide not to buy, if the consumers do not buy, the business do not sell and the goods are not produced.22

1.15 Kinds of Consumption:

Consumption devided in major two parts. It’s totally depends upon the uses of goods. Consumers can use goods directly or indirectly. Kinds of consumption are as per below.23
a) Productive and final consumption

b) Slow and Quick consumption.

There are two kinds of consumption, which are mentioned above.

1.16 Concept of Investment:

The investment process is concerned with how an investor should proceed in making decisions about what marketable securities to invest in how extensive. The investment should be and when the investment environment and process in more details the term investment will be described.

Investment in its broadest sense, means the sacrifice of current dollars for future money. Two different attributes are generally involved time and risk. The sacrifice takes places in the present and is certain. The reward comes later, if at all and the magnitude is generally uncertain.

In some cases the element of time predominates for example government bends in other cases the elements of time predominates for example call options on common stocks. In yet others both time and risk are important for example share of common stock.

A distinction is often made between investment and saving. Saving is defined as forgone consumption investment is restricted to real investment of the sort that increases national output in the future.
Although this distinction may prove useful in other context, it is not especially helpful here. However, it is useful to make a distinction between real and financial investment. Real investment generally involve some kinds of tangible assets. Such as loud machinery or factories financial investments involves contracts written on pieces of paper such as common stocks and bonds.

The financing of an apartment building provides a good example. Apartment are sufficiently tangible to be considered real investment. But where do the resources come from to pay for the land and the construction of the apartments. Some may come from direct investment for example, a wealthy doctor who wants to build an apartment house may use some of his or her own money to finance the project. The rest of the resources may be provided by a mortgage. In essence someone loans money to doctors with repayment promised in fixed amounts on a specified schedule over many years. In the typical case the someone is not a person but an institution acting as a financial intermediary. Thus the doctor has made a real investment in the apartment house and the institution has made a financial investment in the doctor.

For a second example, consider what happens when General Motors (GM) needs money to pay for plant construction this real investment may be financed by the sale of new common stock in the
primary market. (The market in which securities are sold at the time of their initial issuances). The common stock itself represents a financial investment to the purchases, who may subsequently trade. These shares in the secondary market. [The market in which previously issued securities are traded]. Although transaction the secondary market do not generate money for GM. The fact that such a market exists makes the common stock more attractive and thus facilities real investment. Investors would pay loss for new shares of common stock if there were no way to subsequently sell them quickly and inexpensively.

These examples have introduced the three main elements of the investments environment, securities (also known as financial investments or financial assets) security market [also known as financial market] and financial intermediaries (also known as financial institution). 24

1.17 Meaning of Investment:

Investment has always occupied a crucial position in all macro-economic theories. This is not true of Keynesian and post Keynesian theories. But also of pre-Keynesian business cycle theories. This possibly due to the fact that aggregate investment expenditure constitutes a highly volatile component of aggregate demand. During the period of prosperity, investment expenditure is at a very high levels during the period of depression. In fact, during depression investors becomes
reductent to incur expenditure even for replacing the depreciated capital equipment.\textsuperscript{25}

In modern macroeconomic analysis the term ‘investment’ refers to real investment. A firm invests when it uses steel and other materials to build a new warehouses or when it purchases a new machine steel machines and similar capital goods are part of the real output of the economy. In common purulence, when a person deposits money in his savings accounts in a bank or buys the shares of a company we say that he has ‘invested his savings’. Undoubtedly this is invested in a financial firm but it is not a real investment as it does not load to any addition to the physical stock of capital but merely implies a transfer of financial resources. This point settles to definition of investment.\textsuperscript{26}

“Investment implies real investment i.e. addition to the existing stock of real capital assets, such as business construction (say the construction of new factories new office building etc.) building of plant, equipment and machinery and additions to investors (stock of goods)”\textsuperscript{27}

As it clear from the above definition investment is used as a synonym of capital formation therefore it exclyeles all expenditure on previously existing assets and stands for expenditure on current additions to the nations durable equipment and stocks of material and products.
In practice, investment expenditure incurred in the private as well as the public sector. But in a two sector model, to which we have confined our study, investment in the government sector is not taken into account. We assume that whatever be the investment expenditure in an economy, it has to be made by the firms in the private sector usually takes the following forms.

i) Real planned investment in fixed capital particularly the capital equipment (excluding buildings)

ii) Real planned investment in building

iii) Real planned investment in inventories.

It is useful to make the meaning of investment clear. When person buys shares, bonds or debentures of a public limited company, it is generally said that he has made investment, but this is not the real investment which determines income and employment in the country and with which we are here concerned. Buying of existing shares and bonds by an individual is merely a financial investment purchases the shares or bonds. Some other when one individual one would sell them, thus the purchase and sale of the shares merely represents the change in the ownership of assets which already exists rather the creation of new capital assets. It is the new addition to the stock of physical capital such as plant, machines, new factories and so on that creates incomes and
employment. Therefore by real investment is meant the addition to the stock of physical capital.

In economics investment means “The new expenditure incurred on addition of capital goods such as machine, buildings equipment, tools etc. the addition to stock of physical capital”\(^{28}\)

Net investment raises the level of aggregate demand and brings about further addition to the level of income and employment in the economy. Keynes and many other economists also include the increase in the inventories of consumer goods in the capital of the country and there in the investment. These inventories are often called liquid capital.

According to John Robinson, “By investment mean an addition to capital such as occurs when a new house is built or a new factory is built. Investment means making addition to the stock of capital goods”.\(^{29}\)

So according to above information we can understood the concept of investment. But it is necessary to explain the types of investment. Which are as per below.

1.18 Types of Investment:

After Keynes two types of investments have been distinguished. First is autonomous investment and second is induced investment. By autonomous investment is meant, “The investment which does not change with changes in the income level and is therefore independent of income
Keynes thought that the levels of investment depends upon marginal efficiency of capital and the rate of interest. The thought changes in income level will not affect investment. This view of Keynes is based upon his preoccupation with short-run problem. He was of the opinion that changes in income level will affect investment only in the long run. Therefore considering as he was the short-run problem. He treated investment as independent of the changes in the income level. In fact the distinction between autonomous investment and induced investment has been made by post Keynesian economists. Autonomous investment refers to the investment which does not depends upon changes in the income level. This autonomous investment generally takes place in houses, roads, public undertaking and in other types of economic infrastructure such as power, transport and communication. This autonomous investment depends more on population growth and technical progress. Than on the level of income. Most of the investment undertaken by government is of the autonomous nature. The investment undertaken by government is various developments projects to accelerate the economic growth of the country is of autonomous type.

On the other hand induced investment is that investment which is affected by the changes in the level of income. The greater the level of income, the larger will be the consumption of the community. In order to
produce more consumer goods more investment has to be made in capital goods. So that greater output of consumer goods becomes possible. Keynes regarded rate of interest as a factor determining induced investment but the empirical evidence gathered so far suggests that induced investment depends more on income than on the rate of interest. This induced investment is undertaken both in fixed capital assets and in inventories. The essence of induced investment is that greater income and therefore greater aggregate demand affects the level of investment in the economy. The induced investment underlies the concepts of the principal of accelerator, which is highly useful in explaining the occurrence of trade cycle.

Lastly we can explain types of investment as per below. 

1.18.1 Gross and Net investment:

Economists very often distinguish between gross and Net investment. “Gross investment is defined as a flow of expenditure on new fixed capital assets or on additions to investors over a given period of time. Since we are not considering investors at the moment.”

The gross investment may mean the investment expenditure on fixed capital only. A part of the new capital will be needed simply to replace the depreciated capital stock and thus must be deducted to find out net additions to the existing stock of capital we have therefore.
Net Investment = Gross investment - depreciation of fixed capital

Normally an economy plans for a positive net investment because lack of net investment will not only prove to be a serious obstacle to development it may also cause economy to relapse into depression putting tremendous strain on the people. But the built-in-arrangement of a capitalist economy is such that it is not always possible to have positive net investment. When an economy is in a grip of recession, the entrepreneurs will be very much pessimistic about the prospects of new investment. Therefore net investment may be either zero or ever negative.

1.18.2 Public and Private Investment:

On the basis of who makes investment, it is possible to distinguish between private investment and public investment. Today not only in the socialist countries in which entire investment is made by the government even in the western capitalist economics more than half of the investment is made in the public sector. The distinction between the private and public investment is important. The investment in private sector is motivated solely by the profit whereas in the public sector is the criterion for investment social welfare. This difference in the objective of the private and public investors explains why their behavior is not always similar. Particularly, when an economy faces serious economic crisis resulting from over production, the level of private investment is likely to
be low although this approach of the private sector may prove to be disastrous for the producers themselves. Public investment however guided as it is by the social interest will be made to check further decline in the aggregate demand. The discussion which follows relates primarily to investment by the firms in the private sector.

1.18.3 Induced and Autonomous Investment:

If we see investment in relation to income, we find that not all investments are income elastic. Normally when income in an economy rises, investment also increases in its response. Such investment are called induced investment. But this does not rule out the possibility of investment which are totally insensitive to income changes. This income inelastic investment is known as autonomous investment. Most of the investment made by to the government in the public sector belongs to this category, because investment decisions in this sector are made on the basis of consideration other than private gains or losses. Private investment may or may not be autonomous. If there are investment opportunities in an economic system depending upon some exogenous factors and some firms make investment in response to them, we can justifiably consider them as autonomous.

1.19 Concept of Marginal Efficiency of Investment:

“The concept of marginal efficiency of investment (MEI) differs
from the marginal efficiency of capital (MEC) in that it shows the relationship between the rate of interest and the economy’s level of investment when changes in the prices of capital goods are taken into account.**

1.20 The Concept of Investment Decision:

Although in a modern capitalist economy around 50 percent of investment is made in the public sector, we assume in our simple model that all investment decisions are taken by firms (or more strictly by the entrepreneur who own and manage the firms). We further assume that the entrepreneurs do business only to earn profits and they wish to maximize them. In the analysis of the investment function our problem, therefore is to explain how a profit maximizing firm will plan its investments.

Unlike the buyer of a commodity who can easily find out his surplus by comparing the utility that he device from the commodity with its price an investor always faces certain difficulties in calculating the yield on a capital goods. In the first place, All capital goods lost long and the yields on them are usually spread over several years. Since these returns lie in the future an investor can never know them. He can only estimate them which will as a matter of fact depend on his expectations. Moreover he cannot know the economic life of the capital equipment even if he knows its physical life. This is so because the economic life of
a plants or machinery depends considerably on the rate of technological change which can never be accurately predicted. Hence the investor will have to estimate this too secondly, any calculation of yield must at low for the fact that returns spread over a number of years are worth less than the same amount now.

“The investor’s problem thus will be to make yields spread over the economic life of the capital good comparable to its cost”

1.21 Objectives of present study:
The present study is undertaken to study of Income, Consumption, and Investment pattern in the Latur District. With following objectives:
1. To examine Income, Consumption and Investment pattern in India.
2. To examine the pattern of consumption behavior in rural households in Latur district.
3. To examine the saving behavior in rural households in Latur district.
4. To examine the income pattern of rural households in Latur District.
5. To study socio-economic position of selected rural households in Latur District.

1.22 Hypothesis:
1. Rural Households spent more income on necessary goods.
2. Rural Households do not save money due to low income.
3. Rural households do not have income other than agriculture sector.
4. Rural Households education level increases as per increase farm size.
1.23 Research Methodology:

The present study is focused on collection of primary data from the field. The secondary and overall scenario had collected from Latur district census handbook, Latur district socio-economic review, and economic survey of Maharashtra and from NSSO survey reports. The primary data had collected through personal contacts with help of questionnaires and discussion held with 200 rural households of Latur district. First two talukas of Latur district was selected purposively one highly irrigated and another is lower irrigated. From highly irrigated five and lower irrigated five villages from each taluka were selected in these way 10 villages selected for study. After that 20 households were randomly selected. In this way 200 sample households were selected for purpose of study. While collecting data the households were arranged in four groups according to land size, such as (i) Landless people/Labourer (ii)Marginal farmers (iii)Medium farmers (iv)Large farmers. The selection of talukas and villages was purposive but 200 households were selected by randomly.

1.24 Limitation and Scope of study:

Since the study is mainly confined to Latur district of Maharashtra state. The result of the study will be applicable particularly to the Income, Consumption and Investment in rural household in Latur district. It is possible to make broder generlisation as the study has used highly
sophisticated techniques. The present study work is limited to rural households income, consumption and investment in Latur district. The present study deals with Latur district only.

1.25 Scheme of chapters:

The present study consists of six chapters. The first chapter is introduction of concept of Income, consumption and Investment. Such as important definitions, theories, and thoughts of economists about these concepts have discussed in this chapter.

The second chapter presents the review of current and relevant literature on the relevant subject. The literature on the pattern of Income, consumption, Investment is reviewed in this chapter.

The third chapter is deals with profile of research area means that Latur district. Information about Historical, Sociological, Geographical, Economical and cultural background had in this chapter.

The fourth chapter is deals with socio-economic condition of selected households of Latur district.

The fifth chapter is devoted to present pattern of consumption and saving behavior in rural households of Latur district. The Income pattern of selected households also studied in the same chapter.

The sixth chapter deals with findings of present study, some important suggestion and the policy measures.
Conclusion:

The conclusion of all above discussion is concepts of income, consumption and investment play an important role in economic theories. Concept of income is discussed broadly in above chapter, under the concept of income I try to explain types of income, distribution of income, inequality in income and some related concepts. Second important concept is explain in above subject, that is consumption. While explain the concept of consumption, I try to define concept of propensity to consume, the consumption function, consumer surplus, consumer sovereignty and some related concepts. Another important concept in above chapter is investment. I try to focus on investment. While discussing this concept I explain type of investment, gross and net investment, the concept of investment decision and other related concepts.

There are two possible principal for calculating deduction, for finding concept income each of which has a certain significance one of them in connection with production and the other in connection with consumption let us consider them in turn. This includes income obtained by individuals from all sources plus the retained profits of corporations. It can be obtained from the income from domestic product accruing to the private sector by adding the following incomes to it; Net income from
abroad, National debt interest, Government transfer payments and Other transfers from the rest of the world.

Human needs are unlimited and their structure is different kinds. But man can complete this need by multipal use of wealth and factors. Keynes was not interested in the factors determining the aggregate supply since he was concerned with the short run and the existing productive capacity. We will also not explain in detail the factors. Which determine the aggregate supply and will confine ourselves to explaining the determination aggregate demand. Aggregate demand consists of two parts-consumption demand and investment demand. In this way we will explain the consumption demand and the factors on which it demand and how it changes over a period of time. The investment demand will be explained in the another way, but consumption demand depends upon the level of income and the propensity to consume. The propensity to consume is also called consumption function. We shall explain below the meaning of the consumption function and the factors on which it depends. Whatever be the society the main purpose of every economic activity be it production or exchange is consumption. In fact it is consumption that motivates man to produce and if somehow it could be possible for him to achieve a state of wantlessness in which consumption would not be needed all productive activity would come to a stand till but the state of
wantlessness is as exclusive as a mirage and the multiplicity of wants remain a facts of life. Hence, most people spend major part of their income on commodities which satisfy their wants directly. Eggs, bread, cloth, furniture etc. belongs to this category and are called consumer goods.

The investment process is concerned with how an investor should proceed in making decisions about what marketable securities to invest in how extensive. The investment should be and when the investment environment and process in more details the term investment will be described. Investment in its broadest sense, means the sacrifice of current dollars for future money. Two different attributes are generally involved time and risk. The sacrifice takes places in the present and is certain. The reward comes later, if at all and the magnitude is generally uncertain.

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