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CHAPTER-1

DESIGN OF THE STUDY

1.1 Introduction

Consumption is a strategic variable in the theory of economic growth. Keynes\(^1\) places consumption and investment function at the very heart of the economic system. In the growth models also it forms a key parameter and is pivotal determinant of the rate of growth.

For macroeconomists, aggregate consumption is important to understand savings, capital stock, investment, employment and income growth. Consumption involves a broad slice of human activity; it is concerned with all phases of using up of goods and services in living\(^2\). Consumption and production are intermixed and consumption permeates most of the human activities. What is consumed depends to some extent on what is produced within the economy. To quote Adam Smith, consumption is the sole end and object of all production. Human life is nourished and sustained by consumption. The pattern of consumption and its volume depends, in general, upon the standard of living of people.

Consumption determines the size of multiplier and thus the extent of income generation. Aggregate consumption forms a greater percentage of national income in almost all the economies. Thus, any analysis of the factors determining the level of GNP must be concerned with consumer expenditure at some point.
1.2 Significance of Consumption

Globalisation has accelerated the opening of consumer markets, which favoured entry of several companies into the market. Thus, a host of consumption options has been opened for consumers. Very often people strive to pursue the lifestyle of the rich. Competitive spending and conspicuous consumption has become the order of the day.

World consumption has expanded at an unprecedented pace with the opening of the economy. Increase in consumption is related to the change in pattern of expenses and the buying power of consumption units. We should therefore make an analysis of the changes in consumption to identify the characteristics that tempts such changes which accompanies various trends in production and marketing.

Economic growth is affected by aggregate demand. If aggregate demand is growing fastly, economy is likely to be boosting and alternatively there will be recession in an economy. In developing economies like India, of the aggregate demand, consumption spending accounts for more than 60 percent. Therefore, the analysis of consumption is useful and of specific importance in the context of planning.

The study of consumption expenditure is important from micro level also as it brings out the relative importance of different items and group of items in total conceptualization of the consumption behaviour. A study of consumption expenditure is significant for regulating consumption of goods and thereby ascertaining economic stability. Thus, consumption is an inevitable component of economic system and consequently studies on consumption also.
1.3 Review of Literature

To identify the specific research problem, literature review is a logical requirement. Before specifying the objectives, a critical review of selected literature focusing the method may be an order of analysis. The review of empirical studies explores the avenues for future and present research efforts related with the subject matter. So a close look at these studies would enable the researchers to identify the problems and it would help to locate the gaps in the literature and new issues that need to be taken up for the detailed analysis.

Scholars have undertaken a number of studies that have gone into the details of various aspects of consumption expenditure. While reviewing the specific studies on consumption expenditure it was felt that very few attempts were made to analyse the household consumption expenditure. Hence a broader approach was followed and the literature available can be classified into three sections:

1.3.1 Empirical studies abroad

The researchers world over had undertaken empirical studies to examine trends and pattern of consumption behaviour. Therefore, literature on consumption behaviour is vast and varied. There are studies based on time series data and cross section data. Attempts were also made to test alternative hypotheses. In order to get at an appropriate function Woytinsky\(^3\) derived seven different consumption functions but recommended only one as most desirable. Empirical investigations of consumption dealt with real consumers and their actual choices. Numerous notable studies relating to
consumption behaviour have appeared in the U.S.A. and U.K. some such studies are briefly reviewed here.

Observed differences among households in consumption behavior can be attributed to a list of differences in their circumstances, habits and preferences. Some of these are income and wealth, demographic characteristics, place of residence, personality traits, educational attainment, rate of interest, geographic allocation etc. Some of these cancel out but they have pronounced impact on household consumption behaviour.

Importance of wealth in the consumption behaviour had been urged by Ackley. He based his view on more general consideration than those in Modigliani Brumberg model. According to him saving may be motivated by the desire to make bequests or other transfers of wealth to the next generation and the need to even out consumption over the savers lifetimes. The adequacies of wealth to meet all these will then one of the determinants of current saving and consumption.

The propensity to consume and the multiplier have become standard items in the tool kits of economists. Burns (1954) have questioned the view that consumption is particularly a stable or predictable element in national expenditure. Income and consumption data of the U.S.A. after the second world war showed erratic fluctuations in the response of consumption to quarter-to-quarter changes in income. He held the view that the multiplier is not a reliable tool of analysis and prediction.

Eva Mueller (1957) based on the extensive interview test result reported possible changes in spending and saving pattern due to changes in consumer attitudes. Based on the cross section data of 675 urban families,
he analysed the influence of consumer attitudes and expectations on consumer spending. Using multiple regression equation, he identified the relation between variables such as age, income, attitudes and purchase decision. In the regression equation, the coefficient of attitude is found to be smaller (.015) than income (.085) and age (.063). Thus, he concluded that consumer attitudes by themselves were not related to consumer purchases in the second half of 1955.

In the United Kingdom, Davidson, Hendry, Srba and Yeo (DHSY) (1972) Hendry and Urgen – Sterbug (Hus) (1981) and Davidson and Hendry (1981) have developed various models on the assumption that there existed steady relation between quarterly consumer’s expenditure on durables and personal income. On the contrary the observed relation between the two series depicted a falling trend. DHSY explained this trend in terms of inflationary effects.

George Katona⁷ (1972) expressed skepticism of the rigid mechanical relation of consumption spending to income. Household cannot follow the simple rule of spending due to the following reasons.(1) Growth of Affluence (2) Improvement of credit markets.(3) Increase in life expectancies and retirement spans.(4) Requirement to provide for old age with one’s own resources and social insurance rather than a burden to children. According to Katona, these developments liberate consumer spending from dependence on cash income and make consumption saving decision a matter of psychology. The conventional economists reacted to this view by adding to income additional explanatory variables: lagged income, wealth, liquid assets etc; psychological variables such as attitudes,
intensions, expectations and personality attributes too have profound impact on consumption behaviour. Katona and Mueller held the view that measurement of consumer attitudes can help to explain and predict variations in consumer spending which cannot be explained by income changes.

John well ⁸ (1977) has provided detailed evidences on the changing pattern of consumption i.e. diffusion of durable consumer goods in Brazil. The study observed that diffusion of ownership has been affected by factors such as course of time and unit value of the durables, the role played by hire purchase credit and second hand markets, market deepening and demonstration effect of modern consumption patterns.

Swai Boonma⁹ (1978) using data of Thailand’s socio–economic survey of 1971-73 in which 5580 urban and 3168 rural households were surveyed and applying the double log linear formation estimated elasticity coefficient. Total expenditure is used as the proxy for true income. Recorded income is used as the instrument variable for the first stage. He compared rural urban income elasticities using the double log linear formation. The estimated income elasticity for clothing was 0.94 in the rural sector, the same in the urban sector was found to be 1.78, which reflected the socio–economic differences in the level of income as well as the effect of the world clothing fashion on different consumers.

Sheng Cheng Hu ¹⁰(1980) suggested that the best way to estimate the three phases- the phase of lending, the phase of borrowing and the phase of zero financial asset (balanced budget) with each phase will be defining a different relation between income and expenditure
a) Under conditions of imputed capital markets, the appropriate way is to estimate a separate consumption function for each phase. The study identified variations in expenditure on durables and non-durables and found that expenditure on durables is more volatile than expenditure on non-durable goods.

b) The imperfections in capital markets affect not only inter temporal allocation of expenditure but a temporal allocation of expenditures between durable and non-durable goods.

Majorie Flavin\(^1\) (1981) developed a structural econometric model of consumption to estimate the excess sensitivity of consumption to current income. Taking either non-durable consumption or consumption of non-durables and services as dependent variable, he proved that consumption exhibits excess sensitivity to current income.

Hall and Mishkin\(^2\) (1982) opined that households respond to income fluctuations attributable to the business cycle or counter cyclical tax policy in the same way as they respond to purely personal income fluctuations. Their study indicated that food consumption behaviour was independent of the constraints on borrowing.

Hazell and Roell \(^3\) (1983) examined the expenditure patterns in Malaysia and Nigeria. The principal objective of their study was to estimate the relationships between income and consumption for commodity groups (such as total foods, locally produced non foods and total non tradeable.) Total per capita expenditure is used as a proxy for income and Engel relations are estimated using a variant of the working-Leser Model. Their analysis suggests that regional differences in the structure of the
household demand are less apparent when expenditure behaviour is analysed by commodity groups and more apparent when analysed by income or farm sized groups. Households on the larger farms in both regions have the most desired expenditure pattern for stimulating secondary rounds of growth in the local economy.

Suend Hylleberg\textsuperscript{14} (1984) explained the falling trend in terms of income elasticity of consumer durables.

Mankiw Gregory\textsuperscript{15} (1985) examined the link between interest rate and consumption function both of durables and non-durables and services for the US economy. He made use of time series data from 1950-51 to 1980-81. His main findings are that consumption expenditure on durable is very responsive to changes in the interest rate, strong consumption expenditure has incurred during recession and personal tax cuts bolstered consumption expectation as to their permanent income.

Richard Clarida\textsuperscript{16} (1987) investigated optimal consumption behavior under conditions of risk aversion, random income fluctuations and borrowing restrictions. His study showed that differences in income are offset by differences in asset accumulation. He established the existence of number of properties of stationary probability distribution, which are characteristics of consumption behaviour under conditions of liquidity constraints and asset accumulation.

Campbell\textsuperscript{17} (1987) has related real expenditure on non-durable goods and services to the measures of real income and wealth, which can be obtained from deflating the corresponding nominal series with a price index for total consumption expenditure. Using this procedure, he showed that real
consumption of non-durables and services is approximately a constant multiple of total real consumption.

Tullio Jappelli and Marco Pagano\textsuperscript{18} (1989) provided new evidences on the role of liquidity constraints in explaining the excess sensitivity of consumption. They attributed the excess sensitivity to liquidity constraints. Their main finding was that the countries characterised by high excess sensitivity of consumption to income are those where consumers borrow little from capital markets. Capital market imperfections are at the root of small amount of consumer debt.

Birchenall \textsuperscript{19} (1989) developed a seasonal model of consumption, which was based on a short-run process of adjustment to long run or desired level of consumption. It was concerned with empirical investigations of the seasonal structure of aggregate non-durable consumer expenditure in the U.K. for the period 1983-84. Empirical evidences showed that the long run income elasticity of consumption and their rates of adjustment to equilibrium both varied seasonally.

Albert Jaeger \textsuperscript{20}(1992) has examined professional forecasting data to provide evidence on discrepancies between the Random Walk Hypothesis (RWH) and aggregate consumption behaviour. Using band spectrum regression (proposed by Engel) he tested the validity of RWH. The regression results rejected the RWH because of the predictability of consumption growth at low or high frequencies of the data. Forecasts of GNP growth are found to move closely with actual consumption growth at the business cycle frequencies because of liquidity constraints.
Ricardo Caballero\textsuperscript{21} (1993) has identified the features of durable purchases, which are often discontinuous and relatively large. These features have the potential to explain slow adjustment of aggregate expenditure on durables to wealth and other aggregate innovations. Using the results of dynamic aggregation of heterogeneous units and splitting post-war U.S. aggregate durable purchases into different sub categories and periods, he supported the view that lumpy micro economic purchases play an important role in explaining the time series behaviour of aggregate expenditure on durable consumer goods.

Ayub Khan Mehar\textsuperscript{22} (1996) estimated the demand for consumer durables based on simultaneous equation model using least square technique. As per the study monthly household income and sources of transitory income had a positive effect on the demand for domestic appliances but demand for consumer durables showed a remarkable decline with increase in the sources of transitory income (because of the decreased monthly household income).

Stein Ringen\textsuperscript{23} (1996) using family expenditure survey for Britain in 1976 and 1986 showed that income is a measure of goods not of well being. Income data provide only information. Income information can be manipulated to measure well being, reward for effort of purchasing power. Using equivalence scale (OECD) well being is measured. Consumption well being to household members is the value that flows to average household through market activities. The higher the equivalent income, household becomes more consumption efficient. Consumption well being is measured in equivalent income. If society seeks to maximise aggregate well being,
additional goods should be allocated to the most consumption efficient households. If society seeks to equalize well being, additional goods should be allocated to poor households. If society wants both it could face a dilemma of contradictory goals if poor households were economically inefficient.

Abu Wahid 24 (1999) using Keynesian consumption function and Brownian consumption function tested whether any significant structural change took place in the parameters of these functions with Canadian data. It was found that the Keynesian function was very stable throughout the whole data period i.e. 1974-78 without having any structural change in 1974. However, with Brownian function significant changes took place in the parameters. Thus, Brownian function was found to be unstable while the Keynesian function was found to be stable.

Ivanova and Kajal Lahiri 25 (2001) examined the usefulness of Index of Consumer Sentiment (ICS) in predicting aggregate consumption expenditure. Their study reported the strong linkages between consumption expenditure and consumer sentiments in periods of over all uncertainty caused by conflicting socio-economic and political factors. At the same time, predictive power of sentiment was relatively less when forward-looking variables such as interest rate and stock prices were included in linear and Markov switching models.

Sanjay Sobhee 26 (2001) examined the impact of government spending and borrowing on private consumption using an overlapping generation model. Based on rational expectations, estimated a consumption function for the period 1973-96 in Mauritius. It was observed that private
consumption was negatively affected by fiscal deficit in the short run but not
in the long run. Moreover government spending stimulated consumption
expenditure in the short run but not in the long run. Similarly consumers are
affected by short run fluctuations in their disposable income, this tendency is
found to be more revealing in the long run.

Paolo Liberat (2003) using data on consumer studies on rents and
utilities, public transport and healthcare in Belarus has investigated the effect
of reforming subsidies on poor households. His study revealed that poverty
reducing policy in aggregate may have poverty-increasing effects for some
population groups and had negligible effects on poor households.

Junji Kageyama (2003) has examined the effects on saving of a
continuous increase in life time. With cross country data it is confirmed
that an increase in life expectancy has positive effect on various saving rates.
Empirical studies have pointed out that [White (1678), Mirer (1979), and
Menhik and David (1983)] the elderly do not dissave as far as the Life Cycle
Hypothesis predicts. Life Cycle Hypothesis implies that the rate of economic
growth has a positive impact on the aggregate saving rate. The expectation of
higher income in the future leads to increase in current consumption at the
household level. Increase in life time could lead to more certainty. Change in
lifetime affect the allocation of wealth between consumption and saving.

1.3.2 Empirical studies (India)

Studies on consumer behaviour particularly in the Indian context are
scanty; though such studies are abundant in the USA and UK. Since the
inception of National Sample Survey Organization (NSSO) in 1950,
numerous studies relating to consumption behaviour have appeared in India.
Some of the studies are briefly reviewed here.

Roy et.al \(^{29}\) (1954) using NSS data for the first time estimated demand elasticities with respect to household per capita consumption expenditure. Iyengar \(^{30}\) (1960) computed Engel elasticities from concentration curves using NSS data.

Ghosh \(^{31}\) (1962) tested the validity of Keynesian consumption function in a progressive dynamic society. He found that factors like expectation of future earnings and assets play a significant role other than income in the planning of consumption expenditure. The emergence of new consumer durables, the availability of more and more enjoyable forms of travel and transport and so on takes the saturation point in consumption even higher. Due to all these, as income grows people consume from a new and enlarged basket. Therefore in time series, the marginal and average propensities become identical. But in the short period where significant changes in consumption basket do not take place, Keynesian hypothesis is bound to hold.

Iyengar (1964)\(^{32}\) extended the method and estimated Engel curve from grouped survey data. The investigation reported the possibility of inter regional variations in consumer behaviour in India. The estimated quantity and value elasticities in rural areas for almost all items except salt were higher than the corresponding figures in urban areas. The study showed the tendency of consumers particularly in urban areas to move for better quality products with improvement in standard of living.

Krishnamurthy \(^{33}\) (1965) has attempted to estimate consumption function for the period 1948-61. He has derived the consumption expenditure
series using GNP deflator. Besides income, he tried with variables such as lagged consumption, lagged percapita income with or without the income distribution, which gave rather low marginal propensity to consume. So introduced a trend variable and his estimate of marginal propensity to consume of 0.81 is in exact agreement with Iyengar Singh’s estimate. The negative time trend variable is in conformity with the presumption that in India income distribution has changed in favour of upper incomes.

Pioneering works of Sinha (1966) Mukherjee et.al (1967) Bhattacharya and Moitra (1969) Iyengar and Rao (1968) Gupta (19730 Choudary (1979, 80, 90) and many others have extensively used different Engel forms to analyse household consumption expenditure in several parts of the country. All these studies are aggregative in nature.

Sinha\(^{34}\) (1966) using NSS data estimated expenditure elasticity for food grains. It ranges between 0.27 (hyperbolic) to 0.48 (double-log) and for milk products it ranges between 0.65 (hyperbolic) to 1.72 (double-log).

The National Council of Applied Economics Research\(^{35}\) (1967) conducted a survey to study the effect of development on household consumption expenditure. The major findings of the survey are the following:

1) The average percapita monthly expenditure exceeded the corresponding income figures by about 15 percent for the country as a whole.

2) Expenditure on cereals as percentage of income was the lowest for the professional, technical and related workers followed by administrative and executive occupational groups.
3) Professional and administrative groups had gone for milk and milk products. The proportion of income spent on these items increased with increase in the size of the family.

4) The percapita expenditure on edible oil, sweetening agent, fuel and light, footwear and clothing increased with the increased level of income.

Devendra et.al 36 (1968) examined the extent of regional disparities in consumer expenditure between Uttar Pradesh and Madras and between rural and urban households in each of these two states taking into account the influence of household size. The results of comparisons revealed the existence of significant regional differences in consumer behaviour especially for food grains and other non-food items. These differences are insignificant for items such as education, medicine, amusement and sports.

Mukherjee et.al 37 (1968) using NSS data obtained a series of aggregate private consumption expenditure and its commodity components. The same have been deflated to find the changes in levels and cost over the period 1953-54 to 1963-64. It is found that percapita consumer expenditure at market prices showed a remarkable rise of nine percent. However, when national income deflator is used the rise was 15 percent. Their study also revealed that percapita real consumer expenditure on essentials increased where as for non essentials there appeared to be dimensional stability.

Mahajan 38 (1971) investigated the structure and pattern of consumption in six regions of India north, east, south, west, central and northwest. Based on the NSS data collected during the 11th and 12th rounds the study was carried out on ten broad groups of commodities using log linear Engel curve and the method of weighted regression analysis to test the
inter regional homogeneity postulate. It showed the existence of significant inter regional variations in consumer behaviour in India.

A study on the consumption inequality in India was made in the Quarterly Economic Report\textsuperscript{39} of (1971) for the period 1952-66. It is found that even after twenty-five years of independence, consumption income inequality have not altered radically in India. The study made use of NSS consumer expenditure survey of different rounds and depicted a picture of consumption inequality in India both in rural and urban areas.

Inter state consumer expenditure disparities of the rural population of India were studied by Bhattia (1974), Vaidhyanathan, Buttacharya and Chatterjee. It is being found that economic disparities are on the increase due to low rate of economic change among the poorer sections of the rural population. These studies were based on All India surveys conducted by NCAER and NSS.

Ganguly and Gupta\textsuperscript{40} (1976) made a comparative study of the level of living in the different states of India. According to them Maharashtra, Assam, West Bengal, Punjab and Madhya Pradesh were the five states which showed highest levels of per capita expenditure. They also pointed out that Punjab, Maharashtra, Tamilnadu, Kerala, Gujarat and Jammu & Kashmir were the leading states with respect to higher level of living while on the other hand Orissa, Madhya Pradesh and Andhra Pradesh occupied the lower level.

Laumas and Laumas\textsuperscript{41} (1976) using time series data from 1919 -1960 tested Permanent Income Hypothesis. They found that PIH did not hold in the Indian condition during the period under study. According to them
marginal propensity to save out of transitory income is almost as high as marginal propensity to save out of permanent income.

Quarterly Economic Report \(^{42}\) of 1977 revealed that all the southern States, in terms of consumer expenditure are well below normal especially TamilNadu. Based on 1973-74 survey, disparity index for each state has been estimated by taking all India average as the base. Disparity index for rural areas showed that Punjab and Haryana are in higher ranking than national average. Tamilnadu and Orissa are in the lowest ranking. Some of the states of South India have reached near parity and states like Kerala and Bihar have passed the national average.

Gurupada Chakrabarthy \(^{43}\) (1979) estimated Engel elasticities of thirteen items of consumption of ten size classes of annual disposable income using the data collected for the all India survey of income, saving and consumer expenditure by NCAER in 1972. The Lorenz Curve and the specific concentration curve have been used to estimate Engel elasticity.

Dutta Bhaskar \(^{44}\) (1980) based on NSS data attempted to examine changes in the inter sectoral disparities during the period 1960-61 to 1973-74. The results of the study showed that in both the sectors, inequality in the distribution of per capita expenditure recorded a decline and there was no improvement in the mean expenditure. In the urban sector, the relatively affluent had experienced a decline in per capita expenditure.

Thampi Mammon \(^{45}\) (1982) while estimating consumption function for India found lagged response of consumption to disposable income. It lends some support to the view that the household net saving is around 15 percent of disposable income.
Johar et.al (1982)\textsuperscript{46} based on NSS 21\textsuperscript{st} and 28\textsuperscript{th} rounds (1966-67 and 1973-74) examined the inter regional and inter temporal variations in consumption pattern in Punjab. They estimated the expenditure elasticities for different commodity groups. The estimated expenditure elasticity for non-food items were found to be almost double to those for food items both in rural and urban areas. Within the food group commodities like milk and milk products, beverages and other food items commanded high elasticities relative to those for food grains, edible oil and sugar. Within the non-food group, demand for clothing, durables and other non-food items were found more elastic than for fuel and light.

Mahajan\textsuperscript{47} (1983) using various rounds of NSS data examined spatio-temporal stability of consumer behaviour. It is found that consumption expenditure on some group of commodities significantly variant over the states for both rural and urban areas. However inter state variations seemed to be smaller in the case of commodities like food and non-food items where changes in price structure are relatively insignificant.

Murthy\textsuperscript{48} (1985) examined consumption expenditure for the rural and urban sectors at current and constant prices. Atkinson’s inequality indices showed statistically significant decline in inequality in nominal consumption during 1960-61 to 1970-71.

Satya Prakash Singh and Raghbir Singh \textsuperscript{49} (1986) examined the consumption pattern of milk products. MPCE on all milk products was found to be increasing with income. The differences in consumption across the income classes were rather smaller in the case of pure ghee and butter. The
differences were comparatively higher in the case of paneer, whole milk powder and processed cheese.

Chanda\textsuperscript{50} (1986) has estimated expenditure elasticities for thirteen commodity groups by fitting bivariate Engel function with per capita commodity expenditure as the dependent variable and per capita total expenditure as the explanatory variable. It was found that rural urban differential in consumption have narrowed down after the onset of green revolution in Punjab.

Indira Hirway\textsuperscript{51} (1986) discussed the relative levels and distribution pattern of household consumption in the rural areas of Gujarat. This study identified the fact that average consumption level of agricultural laborers are still below poverty line and majority of the households are found to be below poverty line. In the same study he attempted to analyse the influence of land, caste and literacy on consumer behaviour and observed that all the above factors had profound influence in explaining the nature of inequalities in the levels of living in the rural areas of Gujarat.

Mukhopadya\textsuperscript{52} (1987) examined the regional variations in the expenditure pattern of rural households. Expenditure elasticities have been estimated for three commodity groups viz cereal substitutes, all food and non-food items. Pair-wise co-variance analysis has been applied to study inter state variations in consumption pattern. The study reported considerable variations in the expenditure pattern of rural households across states.

Bhattacharya et.al\textsuperscript{53} (1987) while comparing the results between resurvey data and NSS 27th round found that there was only marginal change in food consumption standard and a mild improvement in non food consumption and
that too affected only the upper strata of population. The rise in non-food consumption was due to demonstration effect.

Quarterly Economic Report 54 (1987) making use of NSS data ranked the states in terms of their average expenditure and the corresponding percapita income Punjab, Haryana, Maharashtra and Gujarat are the four leading states of India in terms of percapita income as well as total consumption expenditure. However, in the case of four southern states, which have been ranked low in terms of PCI showed remarkable improvement in consumption expenditure. Kerala’s rank shifted from 6th place to the 3rd place, Karnataka from 12th place to 8th place M.P, U.P, Orissa and Bihar occupied lowest places.

Ghuman 55 (1988) based on the household consumption expenditure data (NSS 28th) round estimated Engel elasticity for food and non food items. Estimated expenditure elasticity was lower in case of food items, where as products like gram, meat, fish, egg, fruits and nuts showed higher expenditure elasticities both in rural and urban Punjab. At the same time, products like Jawar and maize displayed negative expenditure elasticities.

Mahajan 56 (1990) has analysed the long run pattern of annual rate of growth of PFCE and found that the consumption pattern did not show any significant change during the last several years. MPCE is found to be high for food items relative to those of non-food items .There is only marginal increase in the share of PFCE on clothing and footwear. The consumption expenditure on furniture, household equipment and on transport and communication are also not perceptible. The share of expenditure on other items remained constant.
Sen (1990)\textsuperscript{57} analysed the trends in consumption expenditure for the period 1950-51 to 1982-83 using NSS data on household consumption deflated in accordance with the price indices. From the result it follows that most of the rise in the level of expenditure had been mainly due to price rise. There are significant changes in consumer tastes away from cereals and pulses in favour of other costly and more preferable food items.

Subramanyan and Deaton (1991)\textsuperscript{58} identified gender effects in Indian consumption patterns. Substantial gender related effects in the consumption of households for food and non food groups were found. Households with more adult women than men, consume more coarse cereals and less wheat. The same was true for agricultural and non agricultural households of the same size and same budget. Low percapita consumption expenditure, high proportion of people below poverty line and high food share reflect poor level of living of the population.

NSSO (1999)\textsuperscript{59} using data from 53\textsuperscript{rd} round analysed consumer expenditure and employment situations in India. It was observed that at the all India level average rural MPCE was Rs. 395 and Rs.645 in the urban sector. At the state level, average rural MPCE was between Rs.295 and Rs.670 in 12 of the 15 major states such as Kerala, Punjab and Haryana which were the top three states in terms of average MPCE in rural areas. In the urban sector the same was under Rs.645, Maharashtra being the highest (above Rs.750) and lowest Bihar (Rs. 492). The percapita cereal consumption in rural and urban India was found to be declining. Average MPCE recorded 6 percent in rural areas and 13 percent in urban areas over the period 1987- 1997.
Upender and Babu (1999) \(^{60}\) analysed consumption pattern in tribal regions of Telangana. Tribal households in these villages are known as Koya, which has been a dominant tribe in the Khammam district. Major findings of the study are the following:

Percapita expenditure on rice, pulses, vegetables, fish and sugar was found to be very high. A negligible amount was spent on tea/coffee. Most important items of non-food expenditure were clothing (32.01 percent) followed by various items of intoxication from toddy to beedi accounting for (20.46 percent). Festivals and marriages claimed nearly 18.96 percent of the total expenditure. These three groups together with medical expenditure (8.13 percent) covered nearly 80 percent of the total expenditure. Considerable variations were observed in consumption pattern of tribal households across villages.

Bhattacharya et.al (2000) \(^{61}\) examined the consumer behaviour pattern of a tribal group in Meghalaya using the three forms of Engel function namely linear, semi log and double log for different occupational groups. As per the result there exists very little differentiation in consumption pattern among the people in the district irrespective of rural urban distinction.

Hanumantha Rao (2000) \(^{62}\) traced the relative movements in food grains consumption in rural and urban sectors over a period of two decades. During the period 1972-73 to 1993-94 percapita consumption of food grains had declined by around 12 percent in rural areas and by 5 percent in urban areas during this period. The results of the study showed that rural urban
disparity in per capita total expenditure has widened. The disparity was around 30 percent in 1972-73 but by 1993-94 it had risen to 39 percent.

Uma Shankar Patnaik (2001) based on Houthakker and Taylor Habit Formation principle examined the effect of income augmentation and habit formation on calorie intake. The study showed that there exists no correlation between income and consumption expenditure on alcohol in SC and non-SC beneficiaries of rural schemes. It is identified that habit formation is stronger in non-SC over SC beneficiaries. The calorie intake in both the groups is low due to high alcohol consumption levels; therefore, the incidence of poverty is high. Consumption pattern of the sample households shows that the expenditure on the habits viz alcohol, tobacco and beeda masala is high in proportion. Hence a negative impact on calorie intake. An individual, who is habituated to a particular consumption pattern, spends the increased income for costly higher order habits. It was found that larger income effect on cereals, along with high habit formation effect resulted in calorie enhancement. On the other hand, substantially high habit formation effect is observed in the consumption of pulses, oils and alcohol. In the case of alcohol, besides the large and strong negative habit formation effect, the income effect is negative. The money received under the poverty eradication scheme is used for the alcohol consumption in most of the cases, resulting in adverse calorie intake. Hence the poverty eradication scheme practiced in rural Pondicherry, do not uplift the rural poor above the poverty line due to the strong alcohol habit formation.

Shahid Ahmed (2002) investigated the impact of increased farm income and income distribution on expenditure patterns of cultivators in
Haryana and also estimated the effect of price and family size on the expenditure pattern of the cultivators. The major sources of data have been the Family Budgets of cultivators in Haryana published annually by Economic and Statistical Organization Department –Government of Haryana. In order to estimate relationships Almost Ideal Demand System has been used. The study revealed that the fragmentation of families lead to wastage of resources. The expenditure elasticity depicts the nature of food, fuel and light as necessities while that of clothing and other non food as luxuries. It was found that a rise in income of cultivators would result in the expansion of demand for non farm produce such as clothing and non food.

Using NSS data, Deaton and Dreze\(^6\) (2002) found three distinct trends of changing patterns of inequality during the 1990s. They showed that there is strong evidence of divergence in per capita consumption across states. Secondly, their estimates of per capita expenditure with respect to state revealed that rural-urban inequality significantly increased at all-India level. They also found strong evidence of increased rural-urban inequalities within states between 1993-1994 and 1999-2000.

Naveen Kumar et. al \(^6\) (2003) conducted a household survey of Delhi slums. The per capita expenditure classification showed that 72.76 percent of their total expenditure was on food while 27.24 percent was on non-food items. With in the non-food group 32.40 percent was being spent on fuel and light while 6.62 percent was on medical treatment. The average expenditure on education was 12.84 percent. Utilising NSS data estimated the average size of household and average consumer units in these households .There were 72.34 percent households with a size of 5-9 and
25.53 percent household with a size of 0-4 members in their family. From the results, it follows that even the poorest among them carried the burden of a large sized family. Most of the poor households had income between Rs. 50 to Rs 149 per day. The highest mean income was for self owned tea shop owner i.e. Rs 155.51 per day. Petty traders were earning the lowest mean income of all these professions at Rs 61.49 per day. The analysis of below poverty line population revealed that these households had large household size, low income and average expenditure on food. A characteristic of consumption behaviour in India has been the discrepancy between private consumption as measured by CSO and household consumption as obtained from NSS.

Prasad\(^67\) (2003) tried to explain this phenomenon in terms of growing incidence of under reporting of consumption expenditure by the higher income categories.

A number of studies based on the National Sample Survey (NSS) estimates of household consumption expenditure reveal evidences on aggregate and regional trends of changing pattern of inequality. For example, Bhalla\(^68\) (2003) reported that both urban and rural Gini coefficients declined between 1993-1994 and 1999-2000. He concluded that inequality has not worsened in India during the period of reform.

Apurba Kumar Chattapodhyay and Ratan Kumar Ghosal\(^69\) (2004) using secondary data examined the nature of changes in the degree of inequalities in consumption expenditure in rural India during the period of globalisation as compared with that in the pre globalisation period. The changes in the degree of consumption inequality by states and all India over
the period 1983 to 1993-94, 1993-94 to 1999-2000 have been examined. The main findings of the study are

a) The degree of inequality in the distribution of rural consumption has declined at the national and state levels.

b) The impact of globalisation on the inequalities in consumption expenditure among the states have been highly uneven.

c) In some states it has failed to yield any positive impact on the economic condition of the poorest of poor.

d) MPCE for all the states and thus for India as a whole has increased in varying degrees during pre globalisation as well as post globalisation period. However, when expressed in real terms, it is found that some of the states like Haryana, Punjab, Rajasthan and Karnataka experienced declining or almost stagnant average value of consumption during the period of pre globalisation and the states like A.P, M.P, have experienced the same pattern during the post globalisation period.

e) Inter state disparities in average consumption have increased during the post globalisation period as the values of coefficient of variation of average consumption at current as well as constant prices showed an increasing trend during the period.

f) All the states have experienced declining trend in the range of Gini coefficient in varying degrees. It is found that during the period of globalisation, Rajasthan, A.P, U.P, West Bengal and Karnataka have achieved commendable reduction in inequality in consumption expenditure.
Venketa Sesaiah and Srivya (2004) analysed the impact of liberalization on consumption and saving. Their results suggest that openness of the economy has a positive and significant influence on consumption and savings. After liberalization the total scenario has changed. Consumers in India shifted their focus of attention from savings management to expenditure management. This is because of the easy availability of

1) goods and services at lower price
2) finance at low interest rates or zero interest rate
3) death of monopoly power in many sectors because of the entry of foreign players.

The taste and preferences, life style and consumption of the consumers have also changed. People in India have started spending more money on eating out, buying a flat, or car, more number of people have been traveling abroad and there has been a distinct shift from joint family system to that of nuclear families. The liberalization index showed positive and significant influence on consumption during the period 1970-71 to 2000-01.

Jha (2004) also concluded that in both rural and urban sectors, at all-India level, inequality was higher during the post reform period than it was during the crisis period of the early 1990s.

Sen and Himanshu (2004) provided striking evidences about increased inequality in India in the post-reform period. Based on indices of real Mean Per Capita Expenditure (MPCE) by fractile groups, Sen and Himanshu showed that the consumption level of the upper tail of the population, including the top 20 per cent of the rural population, went up
remarkably high during the 1990s. Consumption disparities between rural and urban India increased during this period.

According to Debroy and Bhandari\textsuperscript{73} (2007) inequality in India has risen. This is more intense in urban India (0.376) than the rural (0.305).

Joice John\textsuperscript{74} (2007) explored into the group level differences among the estimates and their contribution to the overall differences in consumption expenditure in various units in 1972-73 and 1977-78. The major groups which showed the differences include food grains, fuel and light, sugar and gur, fruits and vegetable, transport and recreation, education and cultural services. The major contributors towards the divergence were fruits and vegetables transport and clothing and footwear. The important factors which lead to the divergence include the differential implicit prices of the consumer goods, varied reference period, difference in classification etc.

1.3.3 Kerala based studies

Krishnan\textsuperscript{75} analysed the consumption pattern in Kerala by making use of NSS data published since 1965-66. As against the All India pattern, he observed converging of consumption pattern in the rural and urban sectors of Kerala economy. As per the study, six items in the rural areas and seven items in the urban areas revealed as luxury items in 1965-66.

Pillai\textsuperscript{76} (1970) used the state level NSS data on consumption expenditure to estimate Engel elasticity for different consumption items and used them for projecting demand for different consumption commodities for the period 1969-70 to 1978-79.
Pillai \(^7\) (1986) has also attempted for the first time in Kerala to estimate different macro economic aggregates of the economy in which he used NSS reports for the years 1960-61 to 1973-74. The main findings of the study are the following:

1. The Net State Domestic Product (NSDP) recorded a growth rate of 8.99 percent over the period.

2. The aggregate consumption expenditure in the economy which formed 91.97 percent of the NSDP in 1975-76 registered a compound growth rate 6.06 percent, which is less than the growth rate of NSDP.

3. The aggregate consumption in 1980-81 came down to 80.27 percent of the NSDP.

4. The aggregate savings recorded a growth rate as high as 24.54 percent. Thus, the available crude estimates of macro economic aggregate of Kerala economy during the years 1975-76 to 1980-81 suggest that Kerala economy exhibited a healthy sign of economic growth.

Sooryamoorthy \(^7\) (1997) in his studies pointed out that consumption was not necessitated by utility consideration but by the aspiration of consumers for a better standard of living along with social status. He attempted to explain the new trends of consumerism in Kerala with the help of certain socio-economic and geographical variables. He made use of data collected from lower and middle-income households. He was of the opinion that in Kerala, consumerism was rampant at all levels of the society. The variables income, occupation, and education were found to enhance the expenditure on consumption items like beverages, refreshments and processed food, clothing and footwear. The study identified that the middle income class,
fixed income earners, and the well educated spent conspicuously on the above mentioned items. It was found that the level of consumption in both rural and urban areas remained the same except in the purchase of beverages, refreshments and processed food, clothing and footwear.

The per capita consumer expenditure in Kerala was lower than the national average till the early seventies. As the data for 1983-84, 1986-87, and 1988-89 show, Kerala’s position improved significantly since then to reach levels well above the national average (Isaac 1997). Kannan and Hari (2002) examined the changes in the consumption during the period 1972-73 to 1999-2000 and decomposed it into two components, namely consumption out of domestic income and consumption out of remittance income. They worked out the relationship between per capita consumption, per capita state domestic product and modified state income through the estimation of average propensity to consume out of State Domestic Product and modified domestic income. Their study revealed that per capita consumer expenditure in the state is one of the highest among the Indian states since mid eighties. The propensity to consume remained well above 80 percent until the early nineties, since then declined to 50 percent which indicates that growth in income was greater than consumption after 1991-92. This study highlighted the fact that per capita consumption since 1977-78 has exceeded the national average without corresponding increase in income. Since then per capita, consumer expenditure in Kerala exceeded that of India progressively reaching 41 percent above the national average in 1999-00.
Celinkutty (2003) examined consumption expenditure pattern of schedule cast of Kerala. As per the study it is found that in the rural areas of India and Kerala MPCE of scheduled caste households are lower than that of general households in Kerala. The same trend is found in urban areas also.

The levels of living of the scheduled cast are far below the expectations. Large percent of the scheduled caste belongs to low income groups. Due to their low economic status, the consumption standards of the majority of scheduled cast are found to be much below than that of general population.

Kannan and Vijaya Mohan Pillai’s (2004) study of Kerala model uphold the view that economic well-being of individuals in Kerala depends not on per capita income. Their study identified that per capita consumption expenditure of Kerala was 35 percent below the national average until mid 1960’s. But within just two decades it exceeded the national average by 20 percent. In 1983, the per capita consumption expenditure was Rs.152.10 as against the national average Rs 125.10 and in 1999-2000 it was Rs 816.80 as against Rs.591 at the all India level. According to them, the phenomenal increase in inward foreign remittances from Gulf Keralaites and the easy availability of credit facility have been the factors leading to spectacular rise in per capita consumption.

Study by Pat (2005) also gives evidences for higher per capita consumption expenditure. His study has shown that Kerala has been an immense beneficiary of the annual remittance by the expatriates and remittances continued to boost consumption. Total remittances to the state in 2003-2004 have estimated to be Rs 18364 crores from all countries.
1.4 Background of the study

From the above literature review it is clear that substantial studies have taken place on consumption at the national and international level. Global consumption expenditure has grown by an average of three percent per year since 1970. From 1973 to 1998, it doubled in real terms to reach US $24 trillion. Worldwide consumption has increased dramatically. Growth in consumption in its scale and diversity is a global phenomenon. Like wealth, privilege, and power, consumption is distributed inequitably. The richest quintile of the world’s population accounts for 86 percent of total private consumption expenditure. By contrast, the poorest quintile accounts for 1.30 percent. It has been estimated that an average person in North America consumes almost twenty times as much as a person in India or China and 60-70 times more than a person in Bangladesh. Per capita consumption in East Asia manifested growth rates of 6.10 percent annually while the consumption of an average African household decreased by 20 percent annually.

An analysis of India’s Private Final Consumption Expenditure (PFCE) since 1970 shows the fact that it is on an ever-increasing trend. It was only Rs.250880 crores in the year 1970-71 but by year 2001-02 it increased to about Rs.866911 crores i.e. 3.5 fold increase. When we eat, wear clothing, go to a movie we are using output of the economy in one form or other. All forms of consumption together make up two thirds of GDP.

Nearly 65 percent of investment in India enables the country to maintain the old level of consumption to meet the requirements of nutrition, medical care, public health, education, housing etc that go unattended to a
large extent. Therefore, the planners should have an idea regarding the volume of consumption expenditure of different households and the method by which it can be improved. Otherwise, successful implementation of welfare programmes will be hampered.

In a vast country like India, which is characterized by marked interregional differences in physical, climate, socioeconomic and cultural features there are chances for perceptible region to region variations in consumer behaviour. Therefore assumption of homogeneity of consumption behavior throughout the economy may not be realistic. Large differences in the pattern of food and non-food consumption over the regions of the country are well known. Nevertheless, the same is not true for the state of Kerala. In Kerala “resources at the disposal have not brought about any change in the status, but the ability to spent on these goods has to be proved through consumption.” Well being of individuals in Kerala depends on consumption expenditure rather than on per capita income.

1.5 Statement of the problem

Among the developing economies of the world, Kerala has attracted global attention for its high social development coupled with low economic growth. Kerala stands unique among the Indian states with a consistently higher level of human development comparable with that of many advanced countries but with a much lower per capita income.

The people of Kerala are under the grip of ‘Demonstration Effect’. In fact, the evolution of Kerala model of development has led to two main distortions, namely higher consumption over lower production and mounting unemployment. The higher consumption has forced the state to import a
number of agricultural and manufactured goods from the rest of the country there by turning Kerala into a consumer state. In fact, some of the multi
national corporations even selected Kerala for first launching of their products. This indicates high degree of consumerism prevailing in Kerala.
The conventional model of development stipulates that growth in industrial and agricultural sectors and domestic income is a precondition for the development of an economy. The miracle of Kerala model of development is that development has occurred even before growth in productive sectors and domestic income. Kerala economy and society fulfill the parameters of physical quality of life index, high literacy, high life expectancy and low infant mortality. The Human Development Index in Kerala of (0.638) is much higher than the same for India (0.611).

Kerala is far ahead in Human poverty index (19.9) while the same for all India is (31.3)\textsuperscript{87}. Achievement of high quality of life index (PLQI) in the midst of stagnation or near stagnation in agriculture and industrial sector is the paradox witnessed in the economy. This small state with a per capita income of about 160\textsuperscript{th} of the per capita income of US and unemployment rate of about five times of that of US has achieved a level of development almost comparable to that of the US in terms of achievement in health and education and population control. In trade and commerce, it is better placed than most of the other states.

The main constituent of the civic society is the emerging middle class. Since the 1970s, Kerala experienced migration of both educated and unskilled persons belonging to the middle and lower income groups to oil rich Middle East countries. The migration process in search of employment
and income allow the people to indulge higher consumption over lower domestic income and production. The inflow of foreign money generated resources for diversified changes in consumption pattern. With the help of foreign remittances by their family members and relatives, they administer consumerism over consumption above the state domestic income. The upper middle class under the pressure of demonstration effect is eager to enlarge the material pressure at any cost. The lower income group is also tempted to embrace high level of material prosperity within a short span of time. Consumerism is inflated to entire levels of life of the community and economy. People welcome any goods and services that may improve their lives or status without realizing their requirements and resources. Economic liberalization and opening up of economy has resulted in better availability of goods that were once beyond the reach of common man. Availability promotes consumption. During the first two decades of planning between 1951 and 1971, the state could not make much headway in its efforts to reach the stage of self-sustained group. Sen’s indices for Kerala economy were significantly higher than at the national level until 1977-78. The index fell from 0.29 in 1957-58 to 0.21 in 1961-62 and rose to a peak level of 0.34 in 1965-66. It moved around 0.30 until 1970-71 and later declined to and all time low level of 0.08 in 1983. Since then percapita consumption expenditure in Kerala exceeded that of all India. According to Kannan and Hari (2002) Pericapita expenditure in the state is one of the highest among the Indian states since mid eighties. Since 1980s, it continued to increase year after year and in 2003, it exceeded all India level by 77 percent in rural sector and 27 percent in urban sector. The average MPCE at constant prices seem to have increased from Rs. 35.31 to Rs. 558.78 during 1970-71 to 2004
in rural India and from Rs.48.57 to Rs. 1052.36 in urban India. At the all India level, the average urban MPCE exceeded average rural MPCE by 88.8 percent, which was 48.6 percent in 1970-71. The average MPCE seem to have increased from Rs. 36.12 to Rs.1013.15 during 1970-71 to 2004-2005 in rural Kerala and from Rs. 30.5 to Rs. 1290.89 in urban Kerala. The average consumer expenditure per person for a period of 30 days in the rural sector of Kerala in 1970s was almost close to that of the all-India average. However, from 1980 onwards, it started to exceed that of the country and in 2002, it reached a level that exceeded the national average by 66 per cent thereby transforming Kerala economy into a consumer state. The MPCE position of rural household in Kerala is much better than the rural sector of the country as a whole (table 1.1).

Table 1.1

<table>
<thead>
<tr>
<th>Year &amp; Round of NSS</th>
<th>Rural</th>
<th>Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Kerala</td>
<td>India</td>
</tr>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>1970-71 (25th)</td>
<td>36.12</td>
<td>35.31</td>
</tr>
<tr>
<td>1972-73 (26th)</td>
<td>42.19</td>
<td>44.171</td>
</tr>
<tr>
<td>1977-78 (32nd)</td>
<td>74.76</td>
<td>68.89</td>
</tr>
<tr>
<td>1983-84 (38th)</td>
<td>145.44</td>
<td>112.31</td>
</tr>
<tr>
<td>1987-88 (43rd)</td>
<td>211.47</td>
<td>158.10</td>
</tr>
<tr>
<td>1990-91 (46th)</td>
<td>261.85</td>
<td>202.12</td>
</tr>
<tr>
<td>1993-94 (50th)</td>
<td>390.40</td>
<td>281.60</td>
</tr>
<tr>
<td>1999-00 (55th)</td>
<td>765.71</td>
<td>486.0</td>
</tr>
<tr>
<td>2000-01 (56th)</td>
<td>841.31</td>
<td>494.91</td>
</tr>
<tr>
<td>2002-03 (58th)</td>
<td>881.00</td>
<td>430.74</td>
</tr>
<tr>
<td>2003 January to December (59th)</td>
<td>981.00</td>
<td>554.0</td>
</tr>
<tr>
<td>2004 January to June (60th)</td>
<td>990.0</td>
<td>565.0</td>
</tr>
<tr>
<td>2004 June to 2005 July (61st)</td>
<td>1013.15</td>
<td>558.78</td>
</tr>
</tbody>
</table>

Across States, there are significant disparities in consumption expenditure. Jharkhand, Orissa, Chattisgarh, Madhya Pradesh and Bihar had an MPCE less than Rs. 450 in rural areas. Some of these states have fared poorly in terms of urban MPCE as well. On the other side, Kerala topped the list under rural MPCE being Rs. 1013.15. Consumption expenditure of the state has undergone significant changes during the recent years, which is quite evident from the table. Pattern of consumption expenditure has given way to a more market availability based pattern. From the literature review it is clear that substantial studies have not taken place on consumption expenditure in Kerala in recent years. Hence, the consumption expenditure pattern of the state calls for a detailed study and analysis. Thus, the present study is undertaken with the following objectives.

1.6 Objectives

1. To examine the sources of income and consumption of households in rural and urban Kerala.

2. To examine the trends and pattern of consumption among the rural and urban consumers in Kerala.

3. To identify and analyse the determinants of household consumption in Kerala.

4. To identify the urban and rural consumption expenditure disparities in Kerala.

1.7 Hypotheses

1. There is significant difference in the food and non-food expenditure between urban and rural households on the basis of MPCE in Kerala.

2. Average monthly per capita expenditure is inversely related to family size.

3. Expenditure inequality is inversely related to MPCE.
4. There is close resemblance in the expenditure elasticity of different items among rural and urban households.

5. There is significant association between consumption expenditure and income, size of the household, education and occupation of the head of the household.

1.8 Scope of the study

Discussions on household consumption is a very complex issue. The determinants of consumption and related variables are further complex because of the host of variables influencing consumption. What all consumers do in the way of spending and saving determines the general level of economic activity. Future growth of level and structure of consumption is determined most significantly by the income growth. Consumption patterns may change due to changes in price structure or shifts in taste overtime, and due to the rising level of living and availability of new products, urbanisation of population, changes in demographic features of household like size, age, sex, composition and other distributed reasons. The present study on the household consumption expenditure in Kerala is an effort to examine ex post and ex ante consumption patterns, which would provide useful insight to rural and urban life.

1.9 Methodology

The study made use of primary and secondary data to analyse the objectives of the study. Secondary data were collected from various issues of RBI bulletin, Economic Review(Statistics for planning), EPW research foundation, Hand book of statistics on Indian Economy (RBI), Various census reports ,reports of the National Sample Survey, Central Statistical
Organization, National Income Statistics published by CMIE and various websites.

1.10 Data and sampling frame

A multistage sampling procedure was adopted for selecting the sample units. Of the total population of Kerala 318.39 lakhs, urban population constitutes 82.67 lakhs (25.97 percent) while 235.71 lakhs (74.03 percent) constitute rural population. Primary data were collected from 300 households belonging to two municipal corporations and two panchayats lying close to the corporation areas. Of the five municipal corporations Viz. Thiruvananthapuram, Kollam, Kozhikode, Kochi and Thrissur, two corporations of the state Kochi, and Thrissur were selected for the study. Kochi is the industrial capital of Kerala. Thrissur was selected in view of its features urbanisation, gulf migration and its reputation as cultural capital of Kerala. These two corporations are known to exhibit economic social and cultural significance. Further the study of consumption expenditure based on these two regions are likely to be indicative of consumption habits of the people in the rest of the state. Eloor and Mulakunnathukavu grama panchayats were selected as the rural areas. Analysis was carried out separately for rural and urban areas. In order to have a representative sample, five wards, which constitute around 12 percent of the total number of wards from each corporation, were selected. Adequate representation for different occupational groups was also given.

1.11 Schedule of enquiry:

Schedule was prepared in five different parts. Part I deals with socio-economic characteristics of households. Part II deals with different sources
of income. Schedule III deals with data on different items of expenditure and parts IV and V deal with data on saving and indebtedness of the households.

1.12 Concepts and definitions

Household

A group of persons normally living together and taking food from a common kitchen constitutes a household.

Household size

The size of a household is the total number of persons in the household.

Household consumer expenditure

The expenditure incurred by a household on domestic consumption during the reference period is the household's consumer expenditure. Household consumer expenditure is the total of the monetary values of consumption of various groups of items, namely (i) food, (ii) pan, tobacco, intoxicants, fuel & light, (iii) clothing and footwear and (iv) miscellaneous goods and services and durable articles.

Monthly per capita consumer expenditure (MPCE):

For a household, this is the total consumer expenditure over all items divided by its size and expressed on a per month (30 days) basis. A person’s MPCE is understood as that of the household to which he or she belongs.

Durable goods

Items included here all have a lifetime of one year or more. Consumption expenditure on durable goods includes both expenditure on purchase and expenditure on repair and construction of household durables.
Miscellaneous goods and services

This is a residual category covering all items other than food, pan, tobacco, intoxicants, fuel and light, clothing, footwear, and durable goods. It includes among other things, expenditure on education, medical care, entertainment, conveyance, rent, and consumer taxes and cesses.

1.13 Tools of analysis

The primary analytical structure of this thesis is based on bi-variate tables. In the bi-variate tables, chi-square test is used wherever applicable. In order to determine the factors influencing consumption both tabular presentations and factor analysis are also used. Rural urban discrepancy is examined with the help of ANOVA. Besides, inequality ratios are also. Engel ratio is used to examine the relative shares of expenditure on each food and non-food items for rural and urban sample separately. Of the various alternative forms of Engel function, double log function has been adopted for examining the relationship between total expenditure and consumption of various items.

1.14 Limitations of the study:

- Households fail to keep accounts of income and expenditure. Hence, the chances of inaccurate information due to memory lapse are not over ruled.

- Consumption expenditure depends on future expectations, rate of interest, and permanent income. Households are reluctant to part with information related to these financial matters.
• There are biases in reporting expenditure on luxury items, alcoholic drinks, pan and tobacco.

1.15 Scheme of study

The thesis is presented in eight chapters. The first chapter covers the design of the study. Chapter (2) expounds a theoretical framework of the theory of consumption behaviour. Chapter (3) discusses income and consumption behaviour in India. Chapter (4) gives an account of household consumption expenditure in Kerala. Chapter (5) gives a brief profile of the study area. In the sixth chapter evidences from micro level data are cited based on income and consumption expenditure of 300 sample households. Chapter seven examines the determinants of household consumption expenditure in Kerala and also the lessons emerged from the study. Final chapter expounds the findings, conclusions and policy implications of the study.


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