

ABSTRACT

The econometric analysis of per capita consumer expenditures in the Indian context has played an important role in the projection of aggregate consumption demand for the planning exercise; in the study of consumption patterns; and in the analysis of the impact of indirect taxes. For this purpose, there have been a number of attempts by policy makers and researchers in modelling consumer behaviour using complete demand systems based on the secondary data published by the National Sample Survey Organisation (NSSO).

The thesis reconsiders the estimation of the complete demand system motivated by the following aspects: (a) the importance of price responses in the consumer behaviour analysis in the context of the methodological changes in planning strategy since the seventh plan involving economic regulation by financial rather than physical controls; (b) changes in consumer behaviour that accompany the development process; and (c) periodic changes in the sample design and schedules of the NSSO. These factors mentioned above would have econometric implications for the specification, estimation and stability of the demand model and have received limited attention in the related literature. This dissertation attempts to address these specific issues.

The demand system is estimated at the all India level for four ordinal groups and all groups, for three and nine commodity classifications and separately for the rural and the urban sectors. Further, based on the parameter estimates the impact of the economic reforms initiated in 1991 is evaluated for the different ordinal groups.

The results of this dissertation show that:

- there are limitations imposed by the data set which have econometric implications for estimating a static and dynamic demand system;
- the price responses are important in consumer demand modelling and that the additivity and linearity of preferences is ruled out by the data set for both the levels of commodity classification;
- there are multiple break points in the consumption patterns which vary across the ordinal groups and across the commodity groups;
- the causes of the structural breaks could be the changes in the data generating process, or changes in income responses, or changes in preferences;
- the structural reforms have adverse impact on the welfare of the poor, however this is observed to be temporary in nature.