

# CHAPTER I

## INTRODUCTION AND RESEARCH METHODOLOGY

### 1.1 Introduction

The analysis of consumption expenditure pattern overtime would help in designing appropriate policies related to food and non-food due to increasing number of working women, rise in per capita income, changing lifestyles and increasing level of affluence in the middle income group brought about consumption expenditure pattern. Due to increasing impact of television and advertisement family lifestyle change, Foods and non-foods are the most important item of the consumption basket, an analysis of the consumption expenditure pattern over time has a special significance which is the most important component for poor segment of society.

Consumption expenditure pattern is an excellence indicator of economic well being of people. If the society is rich will be made on comfort, luxury commodity as well as, if the society is at substance level, people will spend more on food rather than non-food. According to Engels law, the poorer the family greater proportion of its total income devoted to provision of food.

Consumption in economic theory means the final use of goods and services to satisfy human wants, needs and desires. It is a process of deriving utility from goods and services. Consumption is defined as total value of expenditure on goods and services for the current use by the household sector.<sup>1</sup> Consumption pattern provide the structure for everyday material life and this structure creates economic distance across classes. People belong to different classes of income have different structure of consumption. Rich people spend more for each class of items in absolute terms, but they spend low percentage of income for food and basic needs and poor people spend higher percentage of income on food and other basic needs. In short, the propensity to consume will be higher for poor and the propensity to save will be higher for rich.<sup>2</sup>

Economic development is not only brings about significant changes in the socio-economic and cultural life of a habitant population but it also influences the level of living in the long run. Indian economy has been bringing many changes in the socio-economic life of her population since Independence because of rapid development in the economy. The rise in per capita income levels that have taken place in the post-reform period are likely to have been accompanied by significant change in the pattern of consumption expenditure.

The benefits of knowledge and education go to higher level of income group of rural scheduled caste households. As well as in the case of medical expenses and other necessary expenditure are far away from these scheduled castes which show a direct relationship with the level of Income. The present study relates the consumption expenditure patterns of rural scheduled caste household to show the frequent changes in both food and non-food consumption expenditure due to the changes of standard of living, income of the people and modernity of the society, especially due to the impact different economic policies. The present study tries to analyze the consumption pattern of rural scheduled caste households under various climatically; geographical situation.

The level of welfare of the household can be understood from the consumption expenditure pattern and the qualities of consumption budget which clearly indicate the standard of living of a household. Food consumption pattern of household is an important barometer of individual welfare and well-being in any region. Consumption clearly contributes to human development when it enlarges the capabilities and enriches the lives of people without adversely affecting the well-being of others.

Consumption expenditure pattern of the rural scheduled caste household depend on many factors like, geographical location, climate, area of residence, assets, level of education, occupation and demographic features. Saving of any households also depend upon all these factors. The sources of income in the rural scheduled caste households are various. In most of the households the main occupation is not the only source of income and in the

cultivator households approximately fifty percent of household's income comes from other sources.

Satara District is situated in west part in Maharashtra state. Satara district consists of eleven tehsils covering 1727 villages. The total area is covered by 10480 sq. km and extending between 17<sup>0</sup> 5' and 18<sup>0</sup> 11' North latitudes and 73<sup>0</sup> 33' to 74<sup>0</sup> 54' East longitudes. The climate ranges from the rainiest in the Satara and Karad region which has an average rainfall of over 900 mm to the driest in Man and Khatav tehsils where the average annual rainfall is about 500 mm. rainfall variability and related droughts have historically been major causes of food shortage, fodder shortage of cattle, shortage of water and decline level of water, shortages of wages and famine in the district. Even though drought followed by food in security is not a new phenomenon in eastern part of drought prone region in satara district, it's frequently of occurrence has increased during recent decades. Drought prone region consists of Man and Khatav tehsils which are relatively backward, no infrastructure facilities available in this region even single industry is not situated in this region, hence employment opportunities are less. Due to lowest average annual rainfall agricultural productivity is less as compare satara and karad tehsils. These factors affect on consumption pattern of scheduled caste households. Inverse situation found in river basin region. River basin region consist of consist of Satara and Karad tehsils, river basin region is a relatively well irrigated region, infrastructure facilities are established here such as dam, sugar industries, chemical industries, M.I.D.C are situated in this region. Hence employment opportunities are available here as compare to Man and Khatav tehsils. Due to good average rain fall and river basin region agricultural productivity is good. These all thing affect on consumption pattern of scheduled caste households in study region. Hence researcher selected Satara and Karad tehsils from river basin region and Khatav and Man from drought prone region for the study of consumption expenditure pattern of scheduled caste households in Satara district.

The standard of living of households can be understood from the consumption pattern. Consumption expenditure indicates welfare of households.

## 1.2 Consumption theories

The consumption function shows the relation between aggregate consumption or aggregate saving and aggregate income. Keynes state that current consumption expenditure is a highly dependable on income as well as it is a stable function of current income i.e. the amount of aggregate consumption mainly depends on the amount of income”. According to Keynes a “fundamental Psychological rule of any modern community that, when its real income is increased, it will not increase its consumption by an equal absolute amount’ and stated somewhat less definitely that “as a rule, ----- a greater proportion of income ----- (is) saved as real income increases.”

Theoretical study stimulated empirical work. Time series data and budget data were used to estimate numerical consumption functions. Time series data on consumption, savings, income, prices and similar variables available mostly for the period of post world war – I’ secondly; budget data on the consumption savings and income of individuals and families available from many sample surveys conducted during the past century and a half. Keynes hypothesis were tried to confirm by Both Data. Current consumption expenditure was strongly related with income, the marginal propensity to consume was less than one as well as average propensity to consume was greater than marginal propensity, so it is revealed that saving increased with income But then serious contradictory evidence rise kuznet estimate saving forth year since 1899. His estimation revealed that during the past half-century percentage of saving was not rise despite of substantial rise in real income. Kuznets estimate that the percentage of income saved was much the same over the whole of the period. The corresponding ratio of consumption expenditure to income the constancy of which means that it can be regarded as both the average and the marginal propensity to consume – is decidedly higher than the marginal propensities that time series or budget data.

The appearance of conflict was strengthened by the examination of budget studies. The average propensity to consume is the similar for broadly separated dates, despite large differences in average real income at the end of this examination, the post world war- II saving ratio was highly lower than the

ratio that would have been consistent with finding on the relation between income and savings in the interwar period.

The contradictory evidence generates a many more complex hypotheses. Brady and Friedman state that a consumer unit's consumption depends not on its absolute income but on its position in the distribution of income among consumer units in its community. They presented a good deal of evidence, mostly from budget data, in support of this relative income hypothesis. Duesenberry based the same hypotheses on a theoretical structure. He emphasizes consumers imitate neighbors consumption. In addition, he suggested that the relative income hypothesis could be used to interpret aggregate data by expressing the ratio of consumption to income as a function of the ratio of current income to the highest level previously reached.

Duesenberry estimated a regression for the United States Covering the Period of 1929-1941 and received good result,. Modigliani. Independently made essentially the same suggestion for the analysis of aggregate data, submitted it to extensive and detailed statistical tests, and concluded that it gave excellent results.

Tobin also has examined the consistency of the relative income hypothesis and the absolute income hypothesis and the absolute income hypothesis, with empirical evidence. Though Tobin find neither hypothesis entirely satisfactory he concludes that the weight of evidence favors the absolute income hypothesis, and he tentatively suggest that changes in wealth may explain the rough constancy over time in the fraction of income saved.

Haberler and pigou state that this analytical proposition is invalid if consumption expenditure is taken to be a functions net only of income but also of wealth or, to put it differently, if the average propensity to consume is taken to depend in a particular way on the ratio of wealth to income, this dependence is enquired for the so-called "Pigou effect: this suggestion was broadly accepted.

William Hamburger took empirical study and finds that the ratio of wealth to income is closely correlated with the ration of consumption to income, as judged by aggregate time series data for the interwar and post-world war II period.

Above explanation provide something of the flavor of the work that has been done in the previous few decades on the consumption function.

Keynes initiated the term of effective demand to denote the total demand of goods and services by the consumer in the society in the money market, thus effective demand revealed itself in the spending of income of flows of expenditure. A central principle in the Keynesian economics is that for a level of output to be at equilibrium level, output should be equal to aggregate demand.

The modern economy is a monetary Economy. In the modern economy, money is used in the process of exchange. Money has facilitated the process of exchange and has removed the difficulties of the barter system. Thus money acts as a medium of exchange. The households supply the economics resources or factors to the productive firms and receive in return the payments in terms of money. In is thus clear that, in the money. In is thus clear that, in the monetary economy, there will be flows of money corresponding to the flows of economics resources and the flows of goods and services. But each money flow is in opposite direction to the real flow. The circular flow of income and expenditure explain the reciprocal circulation of income between producers and consumers (households). In the circular flows model, the interdependent entitles of entrepreneurs and consumers are referred to as “firms” and “ household “ respectively and supply each other with factors in order to facilitate the flow of income.

Households are the owners of factor of production- land, labour, capital and entrepreneur. They supply the services of these factors to these who make use of these services to produce goods and services. Firms are the business concerns or the entrepreneurs who decide what, where, how and for whom to produce the goods and services by using the services of factors of production which are supplied by households.

Supply of factors of production by households and demand for them by the firms determine prices of factor services in the factor market. Factor price in the form of rent, wages, interest and profits are paid by the firms and received by the households. Such payments result in distribution of (money) value of goods and services to the factor owners.

Exchange of goods and services take place in the commodity market where they are sold by the firms and purchased by the households. Money received by the households is factor income is spent in the commodity market paying for the goods and services supplied by the firms.

This explanation shows that an economy functions in such a way, where households supply factor services and receive income in the form of factor prices paid by the firms. The households spend the factor income in the commodity market by purchasing goods and services supplied by the firms.

### **1.2.1 Circular flow in two sector economy without saving and investment**

The expenditure of households is the income of the firms & Vice- versa. Thus there is a circular flow of income and expenditure between the firm and households.

There are two simultaneous flows in the economy. Factors of production and goods and services represent real flow whereas factor payments and payment for goods and services represent money flow. The real flow and money flow occur in opposite directions. The factor services flow from the households to firms and goods and services flow from the firms to the households. This is called the real flows between the households and firm. The firms pay for the factor services and households pay for the goods and services purchased. Thus money flows form the firms to the households in the form of rent, wages, interest and profits. This constitutes the income of the households.

Household spend income on goods and services produced by the firms. This expenditure of the households constitutes the income of the firms. The firms again spend this income by buying factors services. The inner circuit in the diagram shows the money flows.

The firms constitute the income of the households and vice-versa. Thus there are two simultaneous flows in the economy.

1. The real flow in terms of goods and services
2. The money flow in terms of income and expenditure.

Continuous flow of money and goods and services between firms and households is called the circular flow. The circular flow of economic activity is continuous. This continuous activity shows the relationship between production, income and expenditure and the interdependence between firm and households. It shows how the economy functions and it is common to all modern economies.

The circular flow of national income shows a flowing there identity.

- a) Total Expenditure of firms = Total income of households.
- b) Total Expenditure of households = Total income of firms.
- c) Total output = Total income = Total Expenditure.

Productions, Distribution, Expenditure are there phases of the circular flow.

Household consumption expenditure on goods and services decline with households saving increases. With reduced money receipts, firms will reduce the factor payments they make to the suppliers of factors Such as workers this will lead to the fall in total incomes of the households. Thus, savings reduce the flows of money expenditure to the business firms and will cause a fall in economies total income. Therefore saving is the leakage from the money expenditure flow.

Saving is a leakage in the circular flow and it gets injected back into the circular flows in the form of investment. The savings and investment flows between households and firms take place through the financial market or financial sector which consists of commercial banks, stock market and non-banking financial institutions.

### **1.2.2 Circular flow in a three Sector Economy**

In a modern economy the Government plays a major role in the functioning and governing of the economics system of country. Government affects the economy in a number of ways. Governments implement policy measures spend on economics and administrative activities by collecting money from its citizens in the form of taxes.

Government receives income in the form of taxes. Tax payments reduce the disposable income of households and firms which in turn reduce their expenditure and also savings.

Governments expenditure consist of expenditure on goods and services and transfer payments in the form of pension payments, subsidies, unemployment allowance etc. money spent by the government is an injection of income into the economy which in turn is received by the households and firms.

Households and firms, financial market, government are the economics agents of three sector economy.

The income of the government through taxes paid by both households and firms is spent by the governments in the form of transfer payments, salaries to governments employees, purchases of goods and services etc. transfer payments are made in the form of pension payments unemployment allowances , subsidies, etc. money spent by the Government is received by the firms and households.

The leakages in the form of saving and taxes arise in the circular flow of income. They get injected back to the circular flow in the form of investment of government expenditure. When the leakages in the form of saving and taxes are equal to injections in the form of investment and government expenditure the flows of economy activities goes on smoothly

### **1.2.3 Circular flows in on open economy or Four sector Economy**

The final sector in the circular flow of income model is the foreign sector which transforms the model from a closed economy to an open

economy. This four sector economy is an open economy where it deals with the rest of the world. The households export labour services and receive remittances as well as the firms export and import goods and services.

A four sector, open economy model, households, firms, financial markets, government and foreign sector have their activities. If saving equals investment ( $S = I$ ), government expenditure equals taxes ( $G = T$ ) and exports equal imports ( $X = M$ ); there will be equilibrium in all the sectors.

In an economy there are several leakages. The main leakage from this sector is imports ( $M$ ); therefore it is very difficult to have simultaneous equilibrium in all the markets.

Circular flow revealed the production creates income, income generates spending and spending induces production.

The circular flows of national income revealed that the value of output is equal to sum of consumption expenditure and investment spending. i.e.

$$Y = C + I \quad \text{----- (1)}$$

The income obtained by households in the form of wages, interest, rent and profit is distributed among consumption and saving thus.

$$Y = C + S \quad \text{----- (2)}$$

From (1) and (2) identities

$$C + I = Y = C + S \quad \text{----- (3)}$$

The above identity shows that the output produced is equal to output sold. The value of output produced is equal to income received and income received in turn is spent on goods or saved.

The subtraction of consumption from identity (1) and identity (2) will have

$$I = Y - C = S \quad \text{----- (4)}$$

The identity (4) revealed that a simple economy is in equilibrium when investment is equal to saving.

By introducing government sector and the external sector, the fundamental identity in one open economy will be

$$Y = C + I + G + NX \text{ ----- (5)}$$

Where G is government spending on purchases of goods and services and NX is net exports.

If the part of income is spent on taxes and the household sector receives transfer payments in addition to national income. Spending income is equal to national income plus transfers minus taxes, thus

$$Dy = Y + TR - T \text{ ----- (6)}$$

The disposable income is allocated to consumption and saving.

$$Dy = C + S \text{ ----- (7)}$$

Combining identities (6) and (7) will have

$$C + S = Dy = Y + TR - T \text{ ----- (8)}$$

OR

$$C = Dy - S = Y + TR - T - S \text{ ----- (9)}$$

Above identity shows that consumption expenditure is equal to disposable income less saving or alternatively, consumption expenditure is equal to national income plus transfers less taxes and saving.

Consumption involves large sized human activity consumption and production is interrelated and consumption passes through the human activities. Consumption is depending on what is produced within economy. Human life is nourished and sustained by consumption. Standard of living is the main determinant of consumption pattern and its volume.

#### **1.2.4 The Absolute Income hypothesis**

J. M. Keynes propounds the Absolute income hypothesis. According to this hypothesis the level of consumption expenditure depends on the absolute level of income. The hypothesis states that when income increases

consumption also increases but less than the increase in income. Thus, if income rose by a given absolute amount, consumption would rise by a smaller absolute amount. Keynes' believed that MPC would decline as income increased. The subsequent development of this theory is associated with James Tobin and Arthur Smithies. Their studies showed that in the short run the relationship between consumption and income is non-proportional and in the long-run this relationship is proportional. The long-run consumption income behavior results through a shift in the short-run consumption function.

While economists considered the absolute income hypothesis as basically correct, doubts about its adequacy arose from the empirical studies. American economist Simon Kuznets estimates a consumption function and contradicts Keynes' consumption function. Simon Kuznets and others state that the aggregate saving ratio had remained constant in the long run, while income had quadrupled. E. Shapiro states that more and more economists now feel that the basic consumption function is proportional. However, the absolute income hypothesis laid stress on factors other than income which affect the consumption behavior of households.

### **1.2.5 Relative income hypothesis**

Relative income hypothesis was propounded by American Economist J. S. Duesenberry. Duesenberry states that consumption expenditure is not determined by the absolute level of income but by the relative level of income. A household's desired standard of consumption would be influenced by the living standards maintained by other households with whom it has contact. The APC declines with the increases in the relative income. If the income of a household increases but its relative position in the income scale remains unchanged because the incomes of the other families have increased at the same rate, the family will spend the same proportion of its income on consumption.

Duesenberry states that the consumption behavior of every individual is not independent but interdependent of the behavior of every other individual. This view has been christened as "the demonstration effects".

According to Duesenberry when income falls consumers try to maintain their consumption expenditure at the highest level previously reached. People do not want to show to their neighbors that they no longer afford to maintain their high standard of living. Thus, a fall in income leads to a smaller reduction in consumption expenditure. This is often called a “ratchet effect”

Duesenberry’s relative income hypothesis is based on two assumptions:

- a) The consumption behavior of individuals is interdependent rather than independent.
- b) The consumption relations are irreversible over time.

To be concluding that like the absolute income hypothesis the relative income hypothesis relates consumer spending to income hypothesis relates consumer spending to income on the assumption that there are no changes in the other factors influencing consumption. Under this assumption, relative income hypothesis shows that the consumption function shifts upwards in proportion with change in income received by the households.

### **1.2.6 Permanent income hypothesis**

According to the absolute and relative income hypothesis individual’s consumption expenditure depends on current income. Milton Friedman rejects these notions i.e. current income is a determinant of consumption expenditure. He argues that consumption is not related to current income but to a long-term estimate of income, which Friedman calls “permanent income.” Friedman introduced wealth as a major constraint of the consumption function.

A household’s permanent income in any one year is not indicated by its current income for that year, but is determined by the expected income to be received over a long period of time.

The consumer arrives at permanent income on the basis of total wealth, both human and non-human wealth. According to the permanent income hypothesis, consumption responds primarily to permanent income. The consumers do not respond equally to all income shocks. The consumer has to

decide whether the changes in income are permanent or merely transitory or temporary. If the increase in income appears permanent, people are likely to consume a larger fraction of the increase in income. On the other hand if the increase in income is transitory, it may not have substantial effect on consumption.

Friedman introduced the concept of permanent consumption which is a constant proportion of permanent income.

According to Friedman, permanent income depends only on the interest rate, the ratio of “non-human” wealth to total wealth, and tastes. R Dornbusch and Fischer S. define permanent income as “the steady rate of consumption a person could maintain for the rest of his or her life, given the present level of wealth and the income earned now and in the future”.

Friedman has also introduced the concept of current income ( $y$ ) and current consumption. The current income is equal to permanent income ( $y_p$ ) plus transitory income ( $Y_T$ ) and the measured consumption  $C$  is equal to permanent consumption ( $CP$ ) plus transitory consumption ( $CT$ ).

Transitory income may rise or fall with windfall gains or losses. If the transitory income is positive, measured income will be above permanent income and if transitory income is negative current income will be below Permanent income. Similarly, measured consumption may deviate from permanent consumption depending on whether transitory consumption is positive or negative. The concept of current income and consumption explains short – run consumption.

According to permanent income hypothesis, the transitory component of consumption is not correlated with the transitory component of income. Thus, when a household’s measured income contains a negative transitory component, it does not lower consumption and when it contains positive transitory income it does not raise consumption. Therefore, unexpected increases or decrease in income will not affect consumption, but will result in equivalent increases or decreases in saving.

The permanent income hypothesis is consistent with cross – section budget studies that high income households have low average propensity to consume than that of the low income households.

### **1.2.7 The life cycle hypothesis**

The life cycle hypothesis is developed by F. Modigliani, R.Brumberg and A. Ando. According to them, consumption is not related to current income of a consumer but to his income over his whole life.

The permanent income hypothesis emphasizes the consumers cash receipts over recent years, because the incomes consumers expect in the future will be largely determined by what they have earned in the recent past. It also implies that the present consumption will depend on expectation of future income. The life – cycle hypothesis looks at the pattern of income over the whole life of the consumer in much more explicit way.

According to life-cycle hypothesis, an individual consumer, in his early years, will be brought up by his parents or others and thus, will be spending money without earning. Later on as he start working earns income. In the middle of his life his income will be high and he may be spending a good amount of income. At the same time the consumer will be earning more than he spends during the middle life. His aim will be to accumulate enough saving in order to have a satisfactory standard of living after he stops working. In the final stage of his life-cycle, after the consumer has finished working, he will spend more and earn little or nothing. Thus, over the whole life-cycle, the consumer is trying to organize his uneven flows of income in order to have a regular pattern of expenditure.

### **1.2.8 Irving fisher and inter temporal choice**

Irving fisher established the model that will be useful for economists to analyze how rational consumer expect future and make their intertemporal choices of consumption and saving fisher state that consumption is depends on current and escompted income over life. An increase in current income or future income will increase current and future consumption.

### **1.2.9 Rational expectations**

The theory of rational expectations was first propounded by John F. Muth of Indiana University in the early 1960s. He used the term to describe the many economics situations in which the outcome depends partly on what expect to happen consumption equations based on the permanent Income hypothesis or Life cycle hypothesis began to under predict consumption and the previous stable relationship between (Current) consumption and (current) income was no longer found in the data. The rational expectations revolution led by Lucas (1976), the Lucas critique states that in the face of rational expectations, structural relationship between variables may not exist. Lucas used the consumption function as own example; under rational expectation agents should only perceive a structural relationship between permanent income and consumption. But life cycle hypothesis and permanent income hypothesis also assert that a further structural relation between observed income and permanent income exists so that consumption is eventually determined by observed current income. Lucas argued that there was no reason to expect a stable relation between current and permanent income because changes elsewhere in the economy could alter the way consumers make inferences about permanent income from observed income. Consumption depends on current and expected future incomes. The relationship between past and expected future incomes cannot be properly treated as an invariant feature of the economics environment and it is likely to change wherever changes in policy or other feature of the economics environment and it is likely to change whenever changes in policy or other events causes rational agents to change the way in which past incomes affects forecasts of future incomes. What does not change is the structural relationship between consumption and permanent income.

Concept of rational expectations did not apply by Friedmans; in his work due to its heavy emphasis on the role of expectations about future income. Friedman's permanent income hypothesis was a prime hypothesis for the application of rational expectations. Subsequently, John. F. Muth and stanford's Robert E. Hall made implementation of rational expectations on versions of friedman's model. Hall's version, imposing that consumption is a

random walk: the best predication of future consumption. This result encapsulates the consumption model and reflects people's efforts it over time. If consumption in each period is held at a level that is expected to leave wealth unchanged, it follows that wealth and consumption will each equal their values in the previous period plus on unforecastable or unforeseeable random shock – really a forecast error. The rational expectations version of the permanent income hypothesis has changed the way economists think about short- term stabilization policies designed to stimulate the economy. Keynesian economists once believed that tax cuts boost disposable income and thus cause people to consume more. But according to the permanent income model temporary tax cuts have much less of an effect on consumption than Keynesians had thought. The reason is that people are basing their consumption decision on their wealth, not their current disposable income .Because temporary tax cuts are bound to be reversed, and they have little or no effect on wealth, and therefore have little or no effects on consumption. Thus, the permanent income model had the effect of diminishing the expenditure “multiplier” that economists ascribed to temporary tax cuts. The rational expectations version of the permanent income model has been extensively tested, with results that are quite encouraging. The evidence indicates that the model works well but imperfectly. Economist next extended the model to take into account factors Such as “habit persistence” in consumption and the differing disabilities of various consumption goods. Expanding the theory to incorporate these features alters the pure “random walk” prediction of the theory and so helps remedy some of the empirical shortcomings of the model, but it leaves the basis permanent income insight intact.

#### **1.2.10 Habit persistence hypothesis**

Dueserberry and Modigliani are given credit for first developing a theory of cyclical consumer behavior sometimes called the habit persistence hypothesis- that was consistent with both the cyclical and secular behavior of the percentage of income saved. According to the Duseenberry – Modigliani change spending habits prohibit individuals from changing their spending as fast as income. For example, on one hand it is argued that during periods of

cyclical expansion, income increases faster than consumers can, owing to habits, boost their spending and therefore the APS rises, but given time to adjust spending faster than consumer can, owing to habits boost their spending and therefore the APS rises; but given time to adjust spending upward to the level justified by the new higher income, the APS falls to its long – run level. On the other hand it is argued that during a cyclical constriction income falls faster than consumers can, due habits reduce their spending and therefore the APS falls; but given time to adjust spending downward to the level called for by the new lower income, the APS rises to its long-run level. The corollary to this so-called “post – Keynesian” theory is that the short – run consumption function is flatter than the long-run consumption function. That is, during periods of cyclical change, saving rises and falls faster then income. Keynes mentioned consumer habits as one of many determinants of consumer behaviour.

Habit persistent hypothesis is developed by Brown (1952). According to Brown Consumer behaviors is influenced by habits customs, standards and levels associated with real consumption previously enjoyed human physiological and psychological systems influence by these factors and this produce an ‘inertia’ in consumer behavioral pattern. Therefore, Brown assumed a continuous influence of post and previous consumption is taken as the lagged variable. He assumed that the shorter the time lags the stronger are the effect of habit – persistence.

### **1.3 Statement of problem**

India is a developing country where low infrastructural development coupled with high population growth has made the lives of many poor people very difficult. Still there are wide ranges of variation on educational expenditure in different income group of households. The benefits of knowledge and education go to higher income group of household in rural India. Similarly in case of medical expenses and other necessary expenses are far away from these deprived masses which show a direct relationship with level of income.

Special provision have been made for the socio-economic uplift of the scheduled caste communities in India there are inter community and regional imbalances among the scheduled caste. Scheduled castes people either agricultural laborers or unskilled workers the economic status of scheduled caste is very poor. These people are engaged in paying occupations and most of them do not get sufficient income for their subsistence. The major items consumed by each household during one month are cereal, spices and salt. Nutritious items are not popular with these household such as green vegetable, fruits and nuts, meat, fish and eggs. Hence the researcher has selected the topic for his study entitled “A STUDY OF CONSUMPTION EXPENDITURE PATTERN OF SCHEDULED CASTE HOUSEHOLDS IN SATARA DISTRICT”

#### **1.4 Importance of study**

Government of India introduced lot of schemes/programmes for upliftment of scheduled caste but social inequalities still exist. Good literature is not available on the state of scheduled caste. There are not many studies of the macro level. Most of the few economic studies on scheduled caste concentrate on educational and occupational structured as well as socio-economic problem of scheduled caste. While studies abound on the consumption expenditure among drought prone region and river basin region households for various expenditure classes, little efforts have been made to study the consumption expenditure pattern of scheduled caste in drought prone region and river basin region of Satara district. The present study on the consumption pattern of these household in drought prone region and river basin region of Satara district is an effort to collect present status of their life.

#### **1.5 Objectives**

- 1) To examine consumption expenditure pattern of scheduled caste households from drought prone region and river basin region of Satara districts.
- 2) To examine the variation in consumption expenditure of scheduled caste households on food, non-food and total expenditure.

- 3) To examine the relationship between consumption expenditure and determinants of consumption such as income, education, occupation and area of residence.
- 4) To suggest various methods or policies to increase income and standard of living.

### **1.6 Hypothesis**

There is significant relationship between consumption expenditure and determinants of consumption such as income, education, occupation, area of residence.

### **1.7 Methodology and tools of analysis**

Examination of consumption expenditure pattern of scheduled caste households from drought prone region and river basin region of the Satara district is done by analyzing distribution of population by Monthly Per Capita Consumption Expenditure. Examination of the variation in consumption expenditure on each food and each non-food has been done by estimating Engel ratios based on primary data for drought prone region and river basin region sample households. Chi-square test was carried out to find out relationship between consumption expenditure and factors such as income, education, occupation and area of residence.

### **1.8 Sample size and study area**

The Satara District consists of 11 tehsils namely Phaltan, Man, Khatav, Koregaon, Satara, Karad, Patn, Jaoli, Mharableshtar, Wai and Khandala. 71791 are total scheduled caste households are prevailing in Satara district. Satara district divided in two regions for purpose of study namely drought prone region and river basin region. Drought prone region consist of four tehsils namely Khatav, Man, Phaltan and Khandala and river basin region consist of seven tehsils namely Satara, Karad, Patan, Wai, Mahableshtar, Koregaon, and Jaoli. Khatav and Man tehsils are measure drought prone tehsils from the Satara district and Satara and Karad tehsil have measure river tributaries.

Mainly four tehsils have been selected namely Khatav, Man from drought prone region and Satara, Karad from River basin region for study of consumption expenditure pattern of scheduled caste households in satara district. The selection has been made on the basis of different geographical features of the District. River basin region is relatively well irrigated region, well infrastructure facilities are developed in this region. Drought prone region is relatively backward; no infrastructure facilities are situated in this region.

Selected drought prone region (Man and Khatav tehsils) comprise total 243 villages and river basin region (Satara and Karad tehsils) comprise total 421 villages. 75 villages out of 243 villages are randomly selected from drought prone region, it is constitute of 30.86% of total drought prone region villages and 130 villages out of 421 villages are randomly selected from river basin region villages, it is constitute of 30.87% of total river basin region villages. Then 300 sample households from selected villages of drought prone region and 300 from river basin region are randomly selected for study. Total 600 sample households are selected for study and comparison made between drought prone region and river basin region. Total 29,229 rural scheduled caste households prevailing in these four tehsil, this selected sample size is constituted of 2.05% rural scheduled caste households from study area.

### **1.9 Secondary data:**

Secondary data on the subject of consumption expenditure was collected from various sources namely internet, libraries, national sample survey organization, magazines, journals, newspaper.

### **1.10 Schedule of enquiry:**

Questionnaire was prepared in two parts. First Part deals with socio-economic characteristic of households and second part deals with data on different items if expenditure. The household's survey was carried out during the months of March to May 2014.

### **1.11 Limitation of study**

- The major limitation of the study is that the present study is related to drought prone region and river basin region of Satara District only and finding may not be applicable to other areas as vast differences exist

among the consumers with regards to demographic and psychographics characteristics.

- The per capita consumption expenditure data collected under individual items of consumption how ever data can be inaccurate due to chances of unaccounted expenses and recall lapses.

### **1.12 Scheme of study**

The thesis is presented in seven chapters. The first chapter covers the introduction and research methodology of study. Chapter second expounds review of literature. Chapter third explains profile of Satara District. Chapter fourth explains profile of scheduled caste. Chapter fifth gives socio-economic background of scheduled caste households in satara district. In the sixth chapter evidence from micro level data are cited based on consumption expenditure of 600 sample households. Final chapter expounds the findings, conclusion and policy implication of study.

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