

Income expenditure and consumerism



Ying (2003) conducted a research explaining the fact how children influenced the spending patterns of family and in about 27.8% of families, children's consumption uses one third of the family's total income. In 35.6% of families, children's consumption uses 40% of the family's total income. In 19.4% of families, children's consumption takes one half of the family's income. And in 7.4% of families, children's consumption takes over one half of the family's income. Thus in most families, the child's consumption level is higher than the average per capita consumption of the family. He highlighted various factors such as higher education levels for children including extra amounts paid for private education and tutors moreover more recreational activities and high end gadgets like mobiles phone, laptops and increased expense towards health care of the children.

Krueger and Perri (2005) found out in a research paper that increase in income inequality in U. S. A was prevailing but there was no inequality consumption. This was because of different trends within-group inequality which was faced an increase in income and a little less increase consumption. They developed a simple framework to identify analytically that how income inequality could result in consumption inequality with respect to standard incomplete market model thus they wanted to document this consumption inequality facts from the U. S data. They have used data from the Consumer Expenditure (CE) Survey for the years 1980-2003.

Cutler (2005) tries to identify implied marginal propensity to consume out of a given income level in Hong Kong for doing this he develops a proxy measure for labor income then tries to estimate consumption function with respect to life cycle model. The author develops a reliable relation between

proxy measure of labor income and long run propensity to consume the estimate calculated comes out to be 0.87 for Hong Kong depicting the fact the marginal propensity to consume is in line with other industrial countries of the world.

Carroll, Fuhrer and Wilcox (1994) their research paper talks about habit formation that is the consumption done when a household is not enjoying same level of income as it did previously but the consumption patterns of the household remains the same. Secondly they tried to analyze the impact of consumer sentiments on the consumption patterns taking into considerations the various economic variables into account. They ruled out permanent income and pure life cycle hypothesis and stated consumer spending is an unclear measure of uncertainty when uncertainty increases the level of consumption falls hence leading to precautionary savings.

Chow, Fung and Ngo (2001) their research paper talks about the Chinese economy and Chinese entrepreneurs who have grown along with the Chinese economy this consumer group is the most influential in consuming expensive goods and services. This research paper compares and contrasts the consumption habits of low income business with that of entrepreneurs coming to conclusion that small businesses incomes are transitory and more volatile hence their consumption is less and they tend to save more on the other hand entrepreneurs earn more and spend more lavishly on meals, traveling, private education and luxury items. Geographic locations and socio-demographics of household have significant effects on the tastes and preferences. Similarly socializing activities that are carried out by the entrepreneurs are the second largest expense in their budgets as they need

a lot of networking to carry out the business. But on the other hand low income groups tend to spend a large proportion of expenditure on activities such as medical care, socializing and education of their children. The authors have run a regression model using various factors such as socio demographics and other factors to find out the strongest affecting variable.

Aydin (2006) talks about the consumption patterns in Turkey's different socio-economic classes and finds out that globalization has led to transformation, reconfiguration and reformulations of class structure and this is leading to social shifts from class based politics to identity politics, ideology to lifestyles and mass production to consumption. These forces have fuelled the social change hence leading to the emergence of a new middle class living a new leisure lifestyle. The research reapproved the fact that social class variables had a significant effect on consumption. Income had the strongest positive effect of all at the consumption level. Simultaneously, income did not alter the influence of class difference. Education had effected the class differentiation. The group with higher education had better living standards thus making education an important mediating factor. The analysis in this research paper depicted the class structuration results due to interaction of income, education levels, and residential location.

Phipps and Burton (1998) in this research paper assume that the household consumer behavior is equal to household utility function and this function is maximized with respect to a single budget constraint and incomes from both partners are pooled. But both partners have different utility functions; the households comprising of teenagers with incomes add more complication to analysis hence they preferred to avoid it. They found

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household income, education levels of husband and wife, region, level of urbanization, age and number of children is of great importance to household utility curve. Income earned by the wife is more likely to be used for restaurant food, her clothes and kid's clothes. Whereas husband's income is allocated towards transportation, they considered clothing as personal private good and it increased with the levels of income of each individual.

Thomas (1993) this paper tries to find out whether all household members share same preferences or they are dictated by any one member of the household. Data taken into consideration is from a survey carried out by Instituto Brasilleri De Geografia they came to a conclusion that when income is in hands of females shares of expenditure increases towards housing, education, health, household services and recreation when males are given the budget they tend to spend excess on health, household service and recreation. Education is considered intervening variable for earning hence increase in consumption, so they exclude education from demand function and include it as a valid instrument for total income. The researchers have come to these conclusions by conducting linear and quadratic models on the complied data.

Bonney (1988) previously sociological analyst of British class structure consider males as the only major determinant of the social class position of the household along with time the trends have changed today there is greater involvement of married females in paid work. This phenomenon is making wives extremely important in family budgets and the socio class location of the household, a husband's increase in wage would negatively affect female's participation in paid work but on the other hand the increase

in wives earning would have smaller but negative effect on their counterparts income. This increases their say in consumption as they are now more economically active.

Sommer (2003) discusses that under habit formation it is difficult for the households to adjust to their new income levels this happens gradually if a tax cut is implemented they respond to such policy slowly. But some consumers save a specific amount of income as a precautionary measure to maintain a similar standard of living.

Megir (2004) talks about the theory of consumption function played an important role in explaining Keynesian demand management. Transitory tax policy or transitory income could have little or no effect on real consumption though income is more volatile than consumption but the long run marginal propensity to consume out of the income is higher than the short run.