

Econometric modelling of the aggregate time series relationship between Consumers' spending and earnings in India

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Abstract:

Consumption function reflects a very important connection in macroeconomics. It shows the link between individuals' expenses and their take-home pay. In the functional form, income happens to be the explanatory variable, and consumption expenditure as dependent variable. Previous studies have mostly analysed this relationship for developed countries, and there are very few studies that focuses on the developing countries including India. This study intends to examine the temporal link between buyer's expenses and pay packet in Indian setting. We have selected the once a year data from 1978-79 to 2018-19, and has taken the following variables: consumer's expenditure, disposable income, government spending, gross fiscal deficit, interest rate and inflation. The study has employed the cointegration methodology of Johansen and discovers that there exist a continuing connection among the variables mentioned above.

1. Introduction

The expenditure function depicts one of the significant associations in real world economy. It suggests how income affects our consumption. The connection involving these two variables may perhaps be linear as well as nonlinear. There possibly will be some consumption expenditure at zero level of earnings.¹ It may well be the case that consumption grows with the increase in income, on the other hand the reverse is not true. The consumption increases with the rise in temporary income, however when temporary income vanishes, consumption might remain at higher lever. Therefore, the consumption-income connection has become very crucial in macroeconomics.

This connection has been far and wide looked into in developed nations. On the

1. It is as a result of the assets taken over from the family tree and/or relatives.

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