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Analyzing Consumption Behavior of the Iranian Urban Households and Estimating Price and Income Elasticities during 1997-2017

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Shahid Chamran University of Ahvaz
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EXTENDED ABSTRACT

INTRODUCTION

Examining houshold consumption expenditures and evaluating their behavior in any economy has spcial importance which in addition to revealing the result of the implementation of past policies, can be a roadmap for government policies at the microeconomic level. Due to the diversification of households' consumption and importance of how allocating the limited income of household to different goods and services, so, investigating the consumer behavior of households by estimating marginal propensity to over-subsistence consumption for differentgoods and services and estimating income and price elasticities, have special position in economic policies. Therefore it is necessary to know the analysis of demand function and its elasticities. In this regard, the purpose of this paper is to invesigate the consumption behavior of urban households and examining the status of different groups of goods, includind substitutes and complements to each other.

METHODOLOGY

This research has been paid to estimate demand curve parameters and calculating income and price elasticities of the Iranian consumption demand

in eight commodity groups by applying Linear Expenditure System (LES) and using econometrics method Seemingly Unrelated Regression (SUR) during the years 1376 to 1396. In this system equations(SUR), first each equation is estimated by OLS method and after obtaining residuals, is made an estimate of variance-covariance matrix. Then the coefficients of the equation are estimated by GLS method.

FINDINGS

Any increase in the income of urban households(after deducting the minimum wage expenses) first leads to a higher demand for housing, fuel and lighting, and then is allocated to other groups. In this way after the housing and energy product groups, in order, the product groups of foods, transportation, other goods, health care, clothing, home appliances, recreation and cultural affaires have the highest priority for allocating the expenditures above the minimum wage among urban households. Also the lowest share belongs to the group of recreation, cultural affairs and education with the marginal cost share of 44%.

CONCLUSION

The results show that in the Iranian economy during the years 1376 to 1396, on average, building group and types of energy(water, electricity, gas, etc) with a coefficient of about %34 has the highest marginal propensity to consume of minimum wage. After building group, commodity groups of food and transportation with a coefficient of %19 and %15 respectively, are allocated in the next priorities of propensity of households to allocate an additional unit of their income to different groups of goods and services. So over the last 20 years, these three commidity groups, contains about %70 of the propensity of Iranian urban households to allocate surplus income. Because Iran is known as a developing country, therefore this result is in accordance with the realities of Iran s economy. Of course, with proper and purposeful planning, it should be possible in the future, by resolving or modifying these concerns, these results shifted in favor of other commodity and service groups that are important for development and progress (including education and health).

The results indicate that own-price elasticities are negative which representing the governance of demand law on consumer goods' demand. In other words, according to microeconomic theory by increasing the price of good or service, assuming other conditions are constant, the amount of demand for the good or service decreases. The results of cross-price elasticities show that there is complementary relationship between

Shahid Chamran University of Ahvaz
Quarterly Journal of Quantitative Economics
(former Economic Studies)

commodity groups which indicates that in the consumption basket of urban households in Iran in 1396, there is not much variety of goods and services so that goods or services can be substituted by changing prices. Also, according to the results, food and drink, and building and different energies groups are considered as essential goods for urban households. Healthcare commodity group is a normal goods and other commodity groups are luxury goods.

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