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*by Angel Meera*

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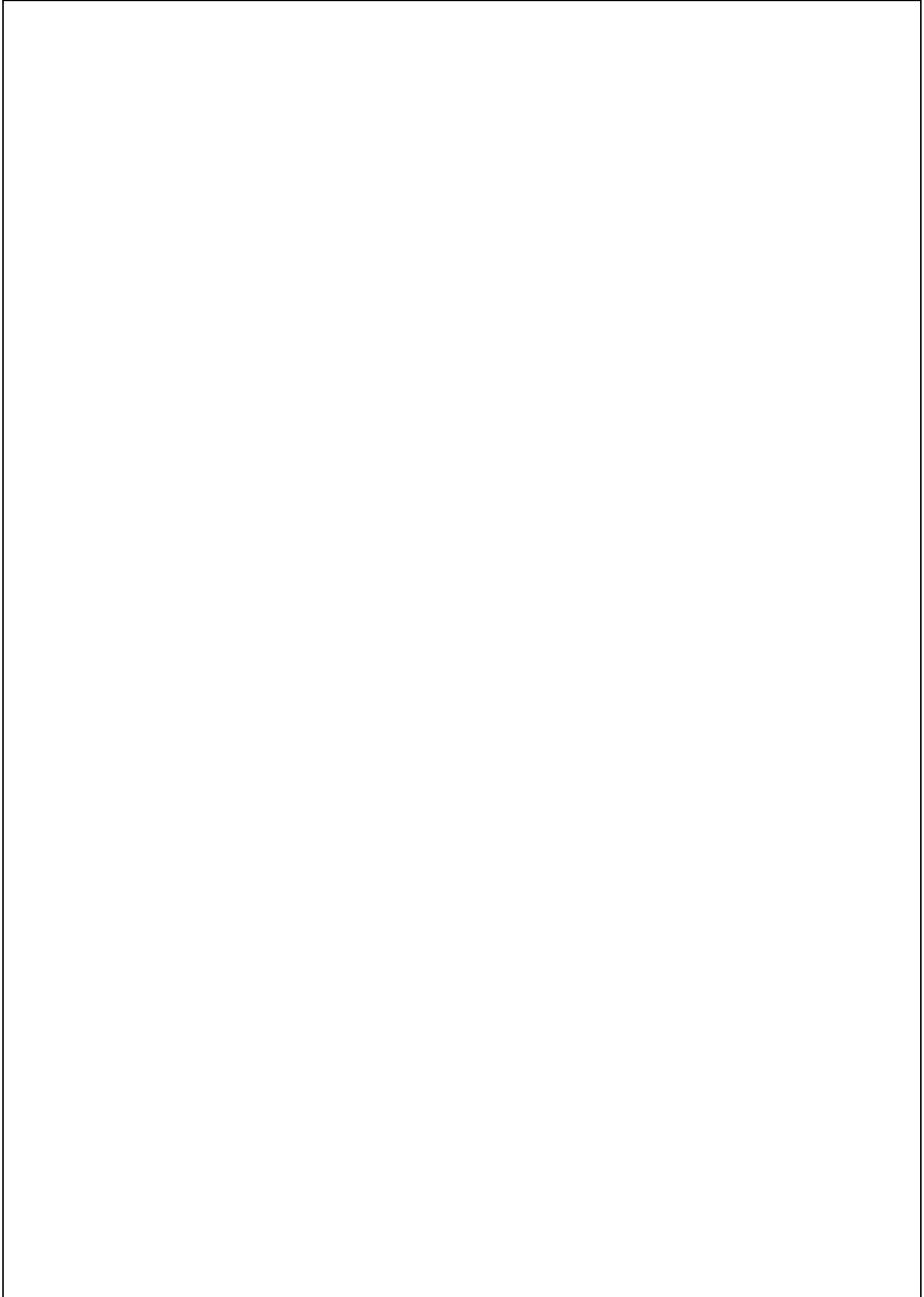
**Determinants of Household Expenditure Patterns in Uttar Pradesh: Analyzing the Impact of Income, Demographics, and Asset Ownership**

**M.Sc.**

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**DEPARTMENT OF MANAGEMENT AND HUMANITIES  
INDIAN INSTITUTE OF INFORMATION TECHNOLOGY,  
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2023 - 2025**



**Determinants of Household Expenditure Patterns in Uttar Pradesh: Analyzing the Impact of Income, Demographics, and Asset Ownership**

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A thesis submitted in partial fulfillment of the requirements for the award of the degree of

M.Sc.

in

Economics & Management

by

AKASH KUMAR

(MSE23003)

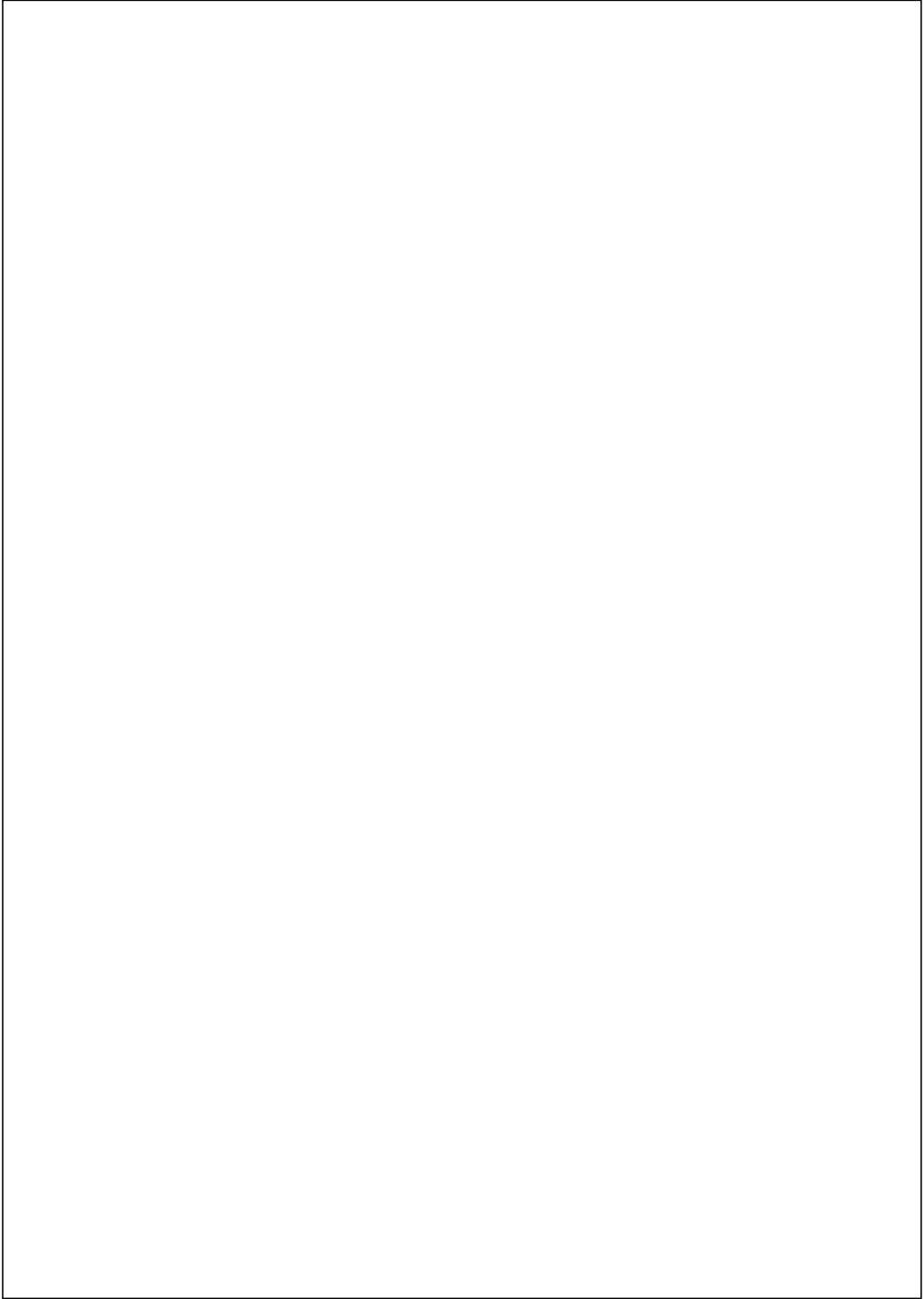
under the guidance of

Dr. Varun Sharma



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2023-25

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### **Acknowledgement of Dedication**

*This work is dedicated first and foremost to my loving parents, whose unwavering support, sacrifices, and unconditional love have been the true driving force behind all my efforts. Their belief in me has been my greatest source of strength throughout this journey.*

*I extend my heartfelt gratitude to my teachers and mentors, whose guidance, wisdom, and encouragement have been instrumental in shaping my academic path and personal growth.*

*A special thanks goes to my friends and batchmates, whose constant support, cooperation, and the countless moments we shared - both challenging and joyful - have made this phase of life truly memorable and rewarding.*

*Lastly, I am deeply grateful to everyone who stood by me, inspired me, and believed in me, even during times when I doubted myself. This thesis is a small reflection of all your contributions to my journey.*



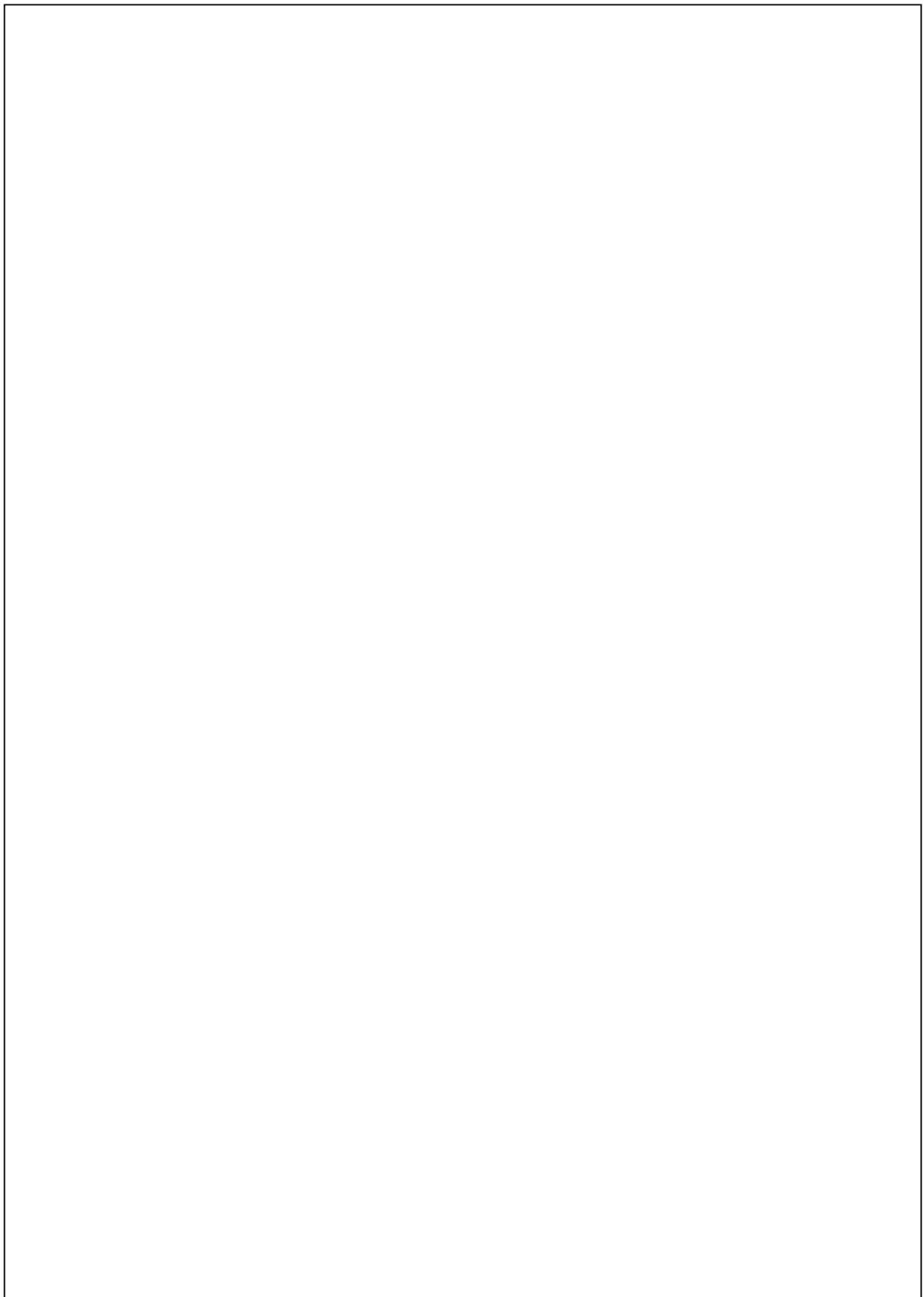
## AUTHORSHIP

I, AKASH KUMAR, declare that this thesis titled, "Determinants of Household Expenditure Patterns in Uttar Pradesh: Analyzing the Impact of Income, Demographics, and Asset Ownership" and the work presented in it are my own. I confirm that:

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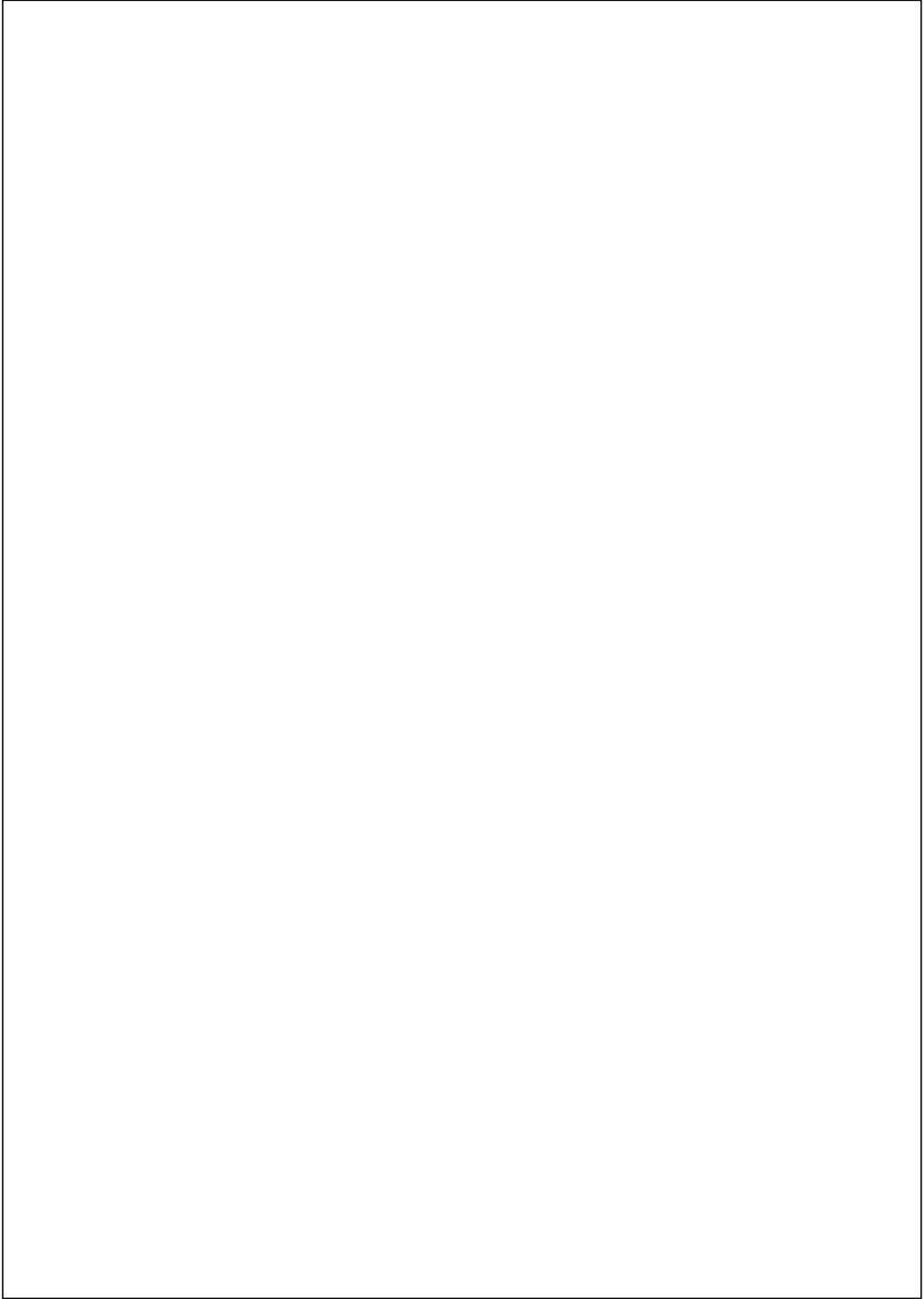
## CERTIFICATE

This is to certify that the thesis entitled "Determinants of Household Expenditure Patterns in Uttar Pradesh: Analyzing the Impact of Income, Demographics, and Asset Ownership" submitted by AKASH KUMAR who got his/her name registered on 15 Jul 2023 for the award of M.Sc. degree at Indian Institute of Information Technology, Lucknow is absolutely based upon his own work under the supervision of Dr. Varun Sharma, Department of Management & Humanities, Indian Institute of Information Technology Lucknow, Lucknow - 226002, U.P., India. that neither this thesis nor any part of it has been submitted for any degree/diploma or any other academic award anywhere before.

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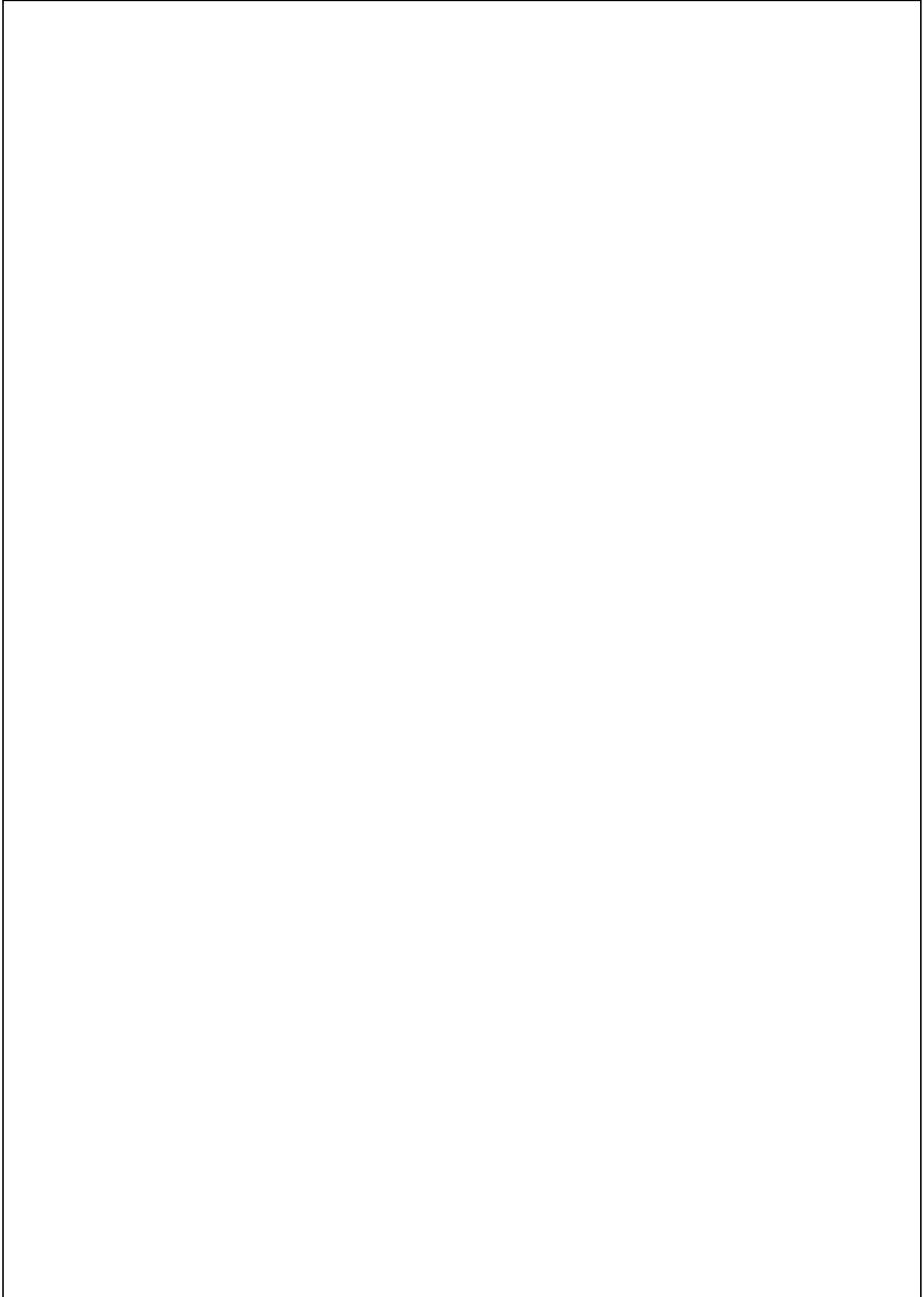


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## ABSTRACT

In the context of Uttar Pradesh - a state marked by vast population density, socioeconomic diversity, and rural–urban disparities - understanding household expenditure patterns is vital for designing effective development policies. This study investigates the determinants of household spending across income, demographic, and asset ownership dimensions, drawing on data collected via online surveys from over 300 households in both rural and urban districts such as Kanpur, Lucknow, Rae Bareli, and Varanasi. By examining how income, family size, age composition, education, employment type, and durable asset ownership influence monthly consumption, the analysis provides a nuanced perspective on expenditure behavior specific to these regions.

The research begins with constructing a conceptual framework that situates household spending within broader socioeconomic indicators. The dependent variable, monthly expenditure, captures total household outlays across categories such as food, education, health, fuel, clothing, and durable goods. <sup>61</sup>Dependent variables include monthly income, number of family members and dependents, <sup>53</sup>education level of the household head, employment status, and ownership of assets like a television, motorbike, or car. Control variables such as region (urban/rural), district, and income group classification ensure that contextual differences are properly accounted for.

The empirical analysis adopts Ordinary Least Squares (OLS) regression to model <sup>53</sup>the relationship between these variables and total spending. Prior to estimation, data cleaning and validation procedures were applied to address missing values and outliers. Economic theory suggests positive associations between income and consumption, as well as potential variations depending on household characteristics. To test model robustness, 5-fold cross-validation was utilized to evaluate predictive performance on unseen data, minimizing the risk of overfitting. Statistical significance of predictors was assessed through t-tests ( $p < 0.05$ ), and multicollinearity diagnostics such as Variance Inflation Factor (VIF) and Condition Number confirmed that model assumptions were reasonable, though some correlation among predictors was noted.

Findings reveal that monthly income is the strongest and most consistent predictor of total household expenditure. Higher income correlates with broader spending patterns, including discretionary categories like health, education, and durable goods. Conversely, the number of dependents has a negative association with per capita expenditure, suggesting that larger families experience resource dilution. Education level of the household head shows a modest positive effect, indicating that higher human capital may enhance both income-generating capacity and preference for quality spending. Ownership of durable assets - while positively correlated with total expenditure - did not emerge as statistically significant predictors, possibly due to uniform asset prevalence across income groups in this sample. Additionally, region and district indicators did not present significant effects, suggesting comparable consumption behaviors across the surveyed districts.

These results align with traditional economic theories such as Engel's Law, whereby households with higher income allocate a smaller proportional share to necessities while increasing

consumption of non-essential goods. The inverse relationship between household size and per capita expenditure also highlights the importance of family composition in economic welfare analysis. The absence of strong asset ownership effects may reflect evolving consumer needs that transcend simple possession of durables.

While this study delivers valuable micro-level insights, it also acknowledges several limitations. The convenience sampling via Google Forms may introduce selection bias and limit generalizability. The cross-sectional design restricts causal inference and prevents examination of spending dynamics over time. Self-reported expenditure data may carry recall bias, and omission of variables like housing cost, credit access, or medical emergencies may leave part of the consumption variation unexplained. Future research should aim to collect larger, more representative samples, employ longitudinal or panel data designs, and incorporate qualitative interviews to understand cultural and behavioral factors underlying spending preferences.

In conclusion, this study sheds light on how income, household structure, and education jointly shape expenditure patterns in Uttar Pradesh, offering evidence-based lessons for policy-makers engaged in poverty alleviation, social welfare design, and inclusive economic planning. By integrating microeconomic variables with real-world survey data, the research underscores the essential role of detailed, localized analysis in informing nuanced policy choices tailored to the needs of India's most populous state.

**Keywords:** Household Expenditure, Uttar Pradesh, Income, Demographics, Asset Ownership, OLS Regression, Engel's Law, Rural–Urban, Policy Implications

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# Chapter 1

## Introduction

"Inflation is taxation without legislation." - **Milton Friedman**

In the evolving socio-economic landscape of India, inflation, demographic shifts, and asset ownership collectively shape the consumption behavior of households. Among India's states, Uttar Pradesh (UP) holds particular importance as a subject of socio-economic research due to its sheer demographic size, economic complexity, and pronounced developmental imbalances. With an estimated population exceeding 240 million (based on projections from the 2011 Census to 2023), Uttar Pradesh not only represents the largest population concentration in the country but also displays distinct patterns in income levels, asset ownership, and household consumption. Exploring what drives household expenditure within such a diverse and unequal environment offers valuable insights for both scholars and policymakers.<sup>[32], [23]</sup>

Household consumption serves as a critical indicator of economic welfare at the micro level and plays a central role in fueling macroeconomic growth. In the Indian context, private final consumption expenditure<sup>[77] FCE</sup> accounted for around 59.2% of GDP in the fiscal year 2023, according to official data from the Ministry of Statistics and Programme Implementation (MoSPI). This underscores the importance of understanding the factors that influence household spending decisions, especially in light of policy goals aimed at fostering inclusive development, reducing poverty, and delivering well-targeted welfare programs.<sup>[33]</sup>

The central objective of this thesis is to examine the key determinants shaping household expenditure patterns in Uttar Pradesh. Particular emphasis is placed on analyzing how income, demographic variables, and asset holdings impact consumption choices. Drawing on both primary data and nationally representative datasets, and employing rigorous econometric analysis, this research seeks to provide evidence on how socio-economic factors interact to influence household consumption behavior in the state.<sup>[28]</sup>

### Conceptualizing Household Expenditure Patterns

<sup>[22]</sup> Household expenditure refers to the total amount a household spends on various goods and services within a defined time frame. This spending is generally divided into food-related and non-food-related categories. The food category typically comprises essential items such as cereals, pulses, vegetables, dairy products, meat, and beverages, while non-food spending includes areas like education, healthcare, clothing, transport, fuel, rent, and other essentials and discretionary items.<sup>[9]</sup>

A key theoretical framework for understanding household consumption patterns is the Engel Curve,<sup>[17]</sup> introduced by the 19th-century German statistician Ernst Engel. Engel's Law posits that as household income rises, the share of income allocated to food consumption de-

clines, even though the absolute amount spent on food may continue to increase. This principle provides valuable insights into how households gradually shift from basic subsistence spending toward more diversified and higher-value consumption as their economic circumstances improve.

Moreover, household consumption patterns evolve in response to broader structural and socio-economic changes. Factors such as urbanization, the spread of digital technologies, improvements in financial inclusion, higher levels of educational attainment, and greater access to durable consumer goods contribute to shifts in how households allocate their expenditure. In addition, asset ownership - whether in the form of land, livestock, vehicles, or electronic appliances - plays a crucial role in shaping consumption decisions. Ownership of such assets not only provides a measure of income security but also influences household investment choices and risk-taking behavior.<sup>[9]</sup>

### The Indian and Uttar Pradesh Context

India's household sector reflects deep-seated economic and social diversity, with Uttar Pradesh serving as a prime example of this complexity. Although the state has recorded notable economic growth in recent years, it continues to grapple with longstanding challenges, including widespread poverty, underemployment, and gaps in educational attainment and healthcare access. According to the Multidimensional Poverty Index (NITI Aayog, 2021), Uttar Pradesh remains among the states with the highest levels of deprivation across key indicators, highlighting the need for sustained and targeted policy interventions.

Households in UP display varied expenditure behaviors across urban-rural divides, caste and religious affiliations, gender compositions, and income quintiles. While urban households benefit from better access to markets, services, and employment opportunities, rural households face constraints in infrastructure and livelihood diversification. These contextual nuances necessitate disaggregated and region-specific policy approaches, which require a robust understanding of household-level data.

Despite the availability of macroeconomic statistics and periodic household surveys, a significant gap persists in micro-level analyses that explain the causal dynamics between income, demographics, assets, and household expenditure patterns at the state level. Most national studies aggregate household behavior, thereby masking local disparities and region-specific determinants.

This thesis seeks to bridge this gap by focusing on Uttar Pradesh as a case study to:

Understand the structural determinants of consumption behavior.

Quantify the impact of income, household size, education, caste, and asset ownership on expenditure decisions.

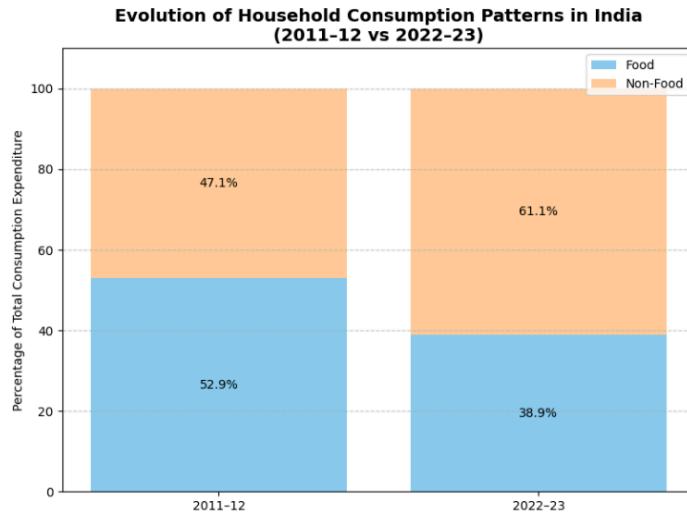
Offer evidence-based policy insights for state-specific development strategies.

Such an inquiry is particularly timely, considering the Government of India's efforts toward Direct Benefit Transfers (DBT), the expansion of welfare schemes like PMAY, PMGKY, and the National Food Security Act, as well as the proliferation of digital payment systems that are reshaping how households manage their finances and consumption.

### Trends in Household Consumption: National and State-Level Evidence

Nationally, India has witnessed a gradual but consistent decline in the proportion of household expenditure on food. According to NSSO's 68th round (2011–12) and 75th round (2022–23) consumption surveys, the share of food in total expenditure has declined

from 52.9% to 38.9%, particularly in urban areas. This transition reflects increased income, changing lifestyles, and diversification of consumption needs. The transition also aligns with global patterns seen in emerging economies experiencing rising middle-class populations and greater service-sector penetration.



In Uttar Pradesh, this transformation is visible but uneven. While urban households have experienced relatively faster declines in food expenditure shares, rural households continue to allocate a substantial portion of their income to basic necessities. Additionally, rising inflation - particularly in food and fuel categories - has added new dimensions to the consumption calculus of low-income households, often compelling trade-offs that have nutritional and health consequences.

#### **Impact of Inflation and Price Shocks**

Persistent inflationary pressures in India, particularly in food prices, have a notable impact on household consumption patterns. Although headline inflation has generally stayed within the Reserve Bank of India's target band of  $4\% \pm 2\%$  since the introduction of formal inflation targeting in 2016, households continue to face challenges arising from periodic supply-side shocks. Factors such as monsoon variability, fluctuations in global commodity markets, and logistical disruptions - as seen during the COVID-19 pandemic - have periodically strained consumption behavior and household budgets.

In Uttar Pradesh, these inflationary trends disproportionately affect rural and economically vulnerable households. Rising prices erode real purchasing power, compelling families to make difficult adjustments in their spending. This often results in reduced dietary diversity, delays in seeking medical care, and postponement of educational or skill development investments. Such coping mechanisms, while necessary in the short term, may have lasting

negative consequences for nutrition security, health outcomes, and human capital formation. Recognizing and addressing these long-term effects is critical for shaping effective policies that can buffer households against inflation shocks and strengthen social protection systems.

#### **Role of Income, Demographics, and Asset Ownership**

Income serves as the most immediate and significant driver of household consumption expenditure. Yet, its impact is shaped by a range of demographic and social factors, including household size, age composition, gender roles, educational levels, and employment patterns. While larger households may realize certain economies of scale - such as shared housing or collective consumption - they often encounter challenges in ensuring adequate per capita resource distribution.

Moreover, specific demographic characteristics contribute to distinct consumption needs. For example, the presence of elderly dependents, female heads of households, or school-going children can shift household spending priorities towards areas like healthcare, education, and care-related services. These factors underscore the complex interplay between income and household composition in shaping consumption decisions. Similarly, caste and religion often serve as socio-economic markers in India, affecting access to jobs, credit, public services, and social capital - all of which indirectly shape expenditure behavior.

Asset ownership introduces an additional layer of complexity. Physical assets such as land and housing provide economic security and reduce vulnerability to income shocks. Financial assets (e.g., bank deposits, insurance, mutual funds) enhance liquidity and future planning, while durable goods like refrigerators, mobile phones, and vehicles improve living standards and influence consumption structures. This thesis aims to empirically test how asset ownership across different categories impacts the magnitude and allocation of household expenditure in UP.

# Chapter 2

## Literature Review

Understanding how households allocate their income across different needs and wants has remained a cornerstone of economic research, particularly in developing countries like India, where financial constraints and socio-economic diversity influence everyday decisions. In settings where poverty, unemployment, and limited access to financial services prevail, consumption patterns reflect not just purchasing power, but also the lived realities and priorities of families. These patterns help economists and policymakers interpret household welfare, assess poverty levels, and design targeted interventions aimed at improving standards of living. In essence, household consumption data acts as a mirror, revealing how income, needs, preferences, and external conditions interact over time.[\[9\]](#), [\[2\]](#)

In recent years, a growing volume of research has paid closer attention to the factors shaping consumption behavior, especially within low- and middle-income countries. While macroeconomic indicators like inflation and GDP growth provide broad national trends, household-level data captures the nuances of daily life - what families choose to spend on food, healthcare, education, housing, transportation, and leisure. These choices are deeply influenced by a variety of socio-economic factors, including household income, size, educational background, access to assets, employment security, and geographic location. For instance, households with stable and higher incomes tend to diversify their spending, allocating more to education and health care, whereas poorer households often focus on basic sustenance such as food and fuel. The level of education attained by the head of a household significantly shapes how resources are allocated, as households led by more educated individuals tend to prioritize spending on goods and services that contribute to long-term well-being.[\[9\]](#), [\[21\]](#)

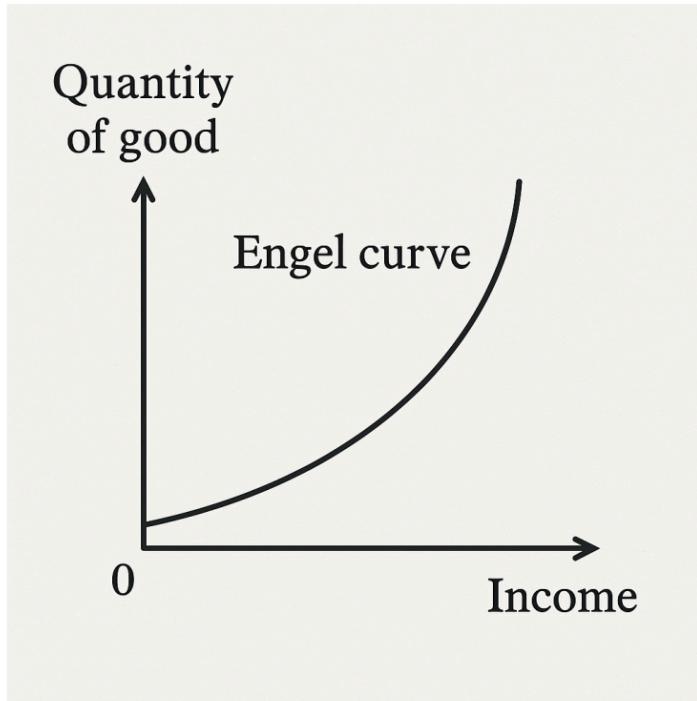
India presents a compelling case for studying household consumption due to its wide-ranging regional differences and complex social structure. Consumption patterns vary greatly between metropolitan areas and rural communities, as well as across social divisions such as caste, [\[10\]](#) economic class, and religion. Large-scale surveys conducted by agencies like the National Sample Survey Office (NSSO) and the National Statistical Office (NSO) offer critical data that help reveal these diverse spending behaviors. For instance, the 2022–23 Household Consumption Expenditure Survey (HCES) highlights a notable shift in household spending away from food toward non-food categories, reflecting ongoing lifestyle transformations, increased urbanization, and the influence of government economic policies.[\[39\]](#)[\[40\]](#), [\[12\]](#)

This chapter provides an extensive review of both classical and modern research that has contributed to our understanding of household consumption patterns. It integrates theoretical frameworks and empirical findings to form the foundational basis for this study. While early theories such as Engel's Law, the Permanent Income Hypothesis, and the Life Cycle Hypothesis have been instrumental in explaining consumption behavior, contemporary research has

broadened the perspective to incorporate factors like asset ownership, educational attainment, and access to public services as key influences. The focus here is particularly on Uttar Pradesh (UP), India's largest and most socio-culturally diverse state. UP serves as a valuable case study to explore how economic limitations, demographic variables, and localized policy measures combine to shape household expenditure. By concentrating on this region, the chapter connects broad economic concepts with the practical realities of consumption in an area that mirrors many of the country's development issues. [19], [34], [7], [24]

### 2.0.1 Classical Economic Theories of Consumption

Classical economic theories have played a fundamental role in shaping how household consumption behavior is studied, and many of these theories continue to guide contemporary research. One of the earliest and most significant contributions came from Ernst Engel, a German statistician, in 1857. Engel identified that as a family's income grows, the percentage of that income spent on food usually decreases, even though the actual amount spent on food may increase. This observation highlighted that food is a basic necessity with relatively low sensitivity to income changes.



Engel's Law remains a key concept in consumption studies, helping to explain the different

spending habits between poorer and richer households. Families with lower incomes typically [70] vote a large share of their budget to food, meeting essential survival needs, while wealthier families tend to spend more on discretionary items like education, leisure, and healthcare.[8], [18]

Building on earlier ideas, economists in the mid-1900s created more sophisticated theories to explain why and when people decide to spend. A key development was Milton Friedman's Permanent Income Hypothesis (PIH) introduced in 1957. This theory proposes that people base their spending habits not just on their current earnings but on an estimate of their average income over their lifetime, known as permanent income. As a result, short-term income changes - like bonuses or unexpected gains - have only a small impact on overall consumption. According to this view, households save or borrow money to maintain a consistent level of spending, smoothing out ups and downs in income. This approach highlights how individuals make choices over time, balancing present needs with expectations about their future financial situation.[19]

Building on the idea of consumption planning, Modigliani and Brumberg (1954) developed the Life Cycle Hypothesis (LCH), which explains how individuals manage their spending and saving over their entire lifespan. According to this theory, people adjust their consumption to smooth out income fluctuations that occur at different stages of life. For instance, young adults might borrow to spend more than they currently earn, middle-aged people tend to save during their peak earning years, and retirees gradually draw down their savings. This model broadens the understanding of consumption by considering factors like aging, employment patterns, and retirement, rather than focusing solely on current income.[35]

[3] These foundational theories form the essential framework for analyzing how households adjust their spending in response to changes in income, demographic trends, and economic uncertainties. Engel's Law emphasizes how spending patterns vary with income levels, particularly in the allocation between necessities and discretionary items. Meanwhile, the Permanent Income Hypothesis and Life Cycle Hypothesis introduce the importance of timing, showing that consumption decisions consider not just current income but also anticipated future earnings and needs. Together, these models reveal that household consumption is often a deliberate and forward-looking process rather than a simple reaction to immediate financial circumstances.

In developing countries like India - especially in states such as Uttar Pradesh - these classical theories remain highly applicable. Households in these regions often deal with uncertain incomes, restricted access to formal financial services, and larger numbers of dependents. As a result, the ideas of consumption smoothing and careful prioritization of spending are central to how families manage their resources. The enduring relevance of these theories helps in interpreting household data and in shaping policies that aim to raise living standards and promote economic security.[18],[19]

## 2.0.2 Income and Household Expenditure: Empirical Evidence

Empirical research on household consumption has consistently reinforced classical economic theories, especially in the case of India. Many studies confirm that income plays a crucial role in determining how families allocate their spending. As income levels rise, households not only tend to spend more overall but also shift their spending patterns - for example, spending relatively less on food and more on housing, education, transportation, and other non-essential goods and services.[24]

A major advancement in the study of household consumption came from Deaton and Muellbauer (1980), who developed the Almost Ideal Demand System (AIDS) - a flexible model that

allows for detailed analysis of consumer demand patterns. This model has been widely used to examine consumption trends in India, particularly through data from various National Sample Survey Office (NSSO) rounds. Later, Deaton (1997) applied this approach to Indian household data and highlighted striking differences between rural and urban consumption habits. His work showed that rural families, especially in poorer states like Uttar Pradesh, spent a significant share of their income - often more than 60 percent on food. In contrast, urban households, with greater incomes and improved access to services, devoted larger portions of their budgets to housing, transportation, education, and durable goods. These findings not only confirm Engel's Law in India's context but also demonstrate the impact of urbanization and infrastructure on household spending beyond basic necessities.<sup>[10]</sup>

Additional important insights come from the influential study by Sundaram and Tendulkar (2003), who analyzed data from the NSSO's 55th Round. Their work showed a clear positive link between household income and both the amount and variety of goods and services consumed. At the same time, they highlighted the significant influence of factors such as household size, age structure, and location in shaping spending patterns. In Uttar Pradesh, for example, rural families were found to devote a large share of their budgets to food and basic needs, while spending relatively little on education and healthcare. These results underline that income, while vital, interacts with other elements like infrastructure, cultural practices, and the policy context to determine how households use their resources.<sup>[49], [48]</sup>

More recent studies have explored how consumption patterns have evolved in India since economic liberalization. Himanshu (2019) observed that the decline in poverty levels since the 1990s has contributed to gradual changes in household spending habits. As incomes rose, especially for lower middle-income groups, families began allocating more resources to non-food items. In states like Uttar Pradesh, this has meant growing spending on mobile phones, internet services, private education, and personal vehicles. These trends reflect not only greater financial stability but also shifting aspirations, better access to markets, and the growing reach of digital technology into rural and semi-urban communities. Together, these findings highlight the central role of income in shaping both how much households consume and what they choose to consume. They also show that the influence of income is shaped by broader structural and demographic factors, making household consumption an area that continues to offer valuable insights. In regions like Uttar Pradesh, where inequality and service gaps persist, such understanding is crucial for crafting policies that promote inclusive growth.<sup>[22]</sup>

### 2.0.3 Demographic Determinants of Consumption Behavior

In addition to income, demographic factors have a major influence on how households manage their spending, especially in a large and diverse country like India. Characteristics such as household size, the gender and education of the household head, and the proportion of dependents within the family all shape how limited resources are divided between basic and non-essential needs. These factors not only determine the overall level of consumption but also guide the choices families make about what to prioritize. In a society as socially and economically varied as India's, understanding these demographic influences helps explain the wide differences in household spending patterns.

Household size is a clear example. Larger families, particularly those with low incomes, tend to allocate more of their budget to essential goods like food, housing, and clothing. The focus often shifts to meeting basic needs in greater quantity, sometimes at the cost of quality. Narayana and Srinivasan (2020), in their study of Uttar Pradesh, found that larger households frequently struggled to spend on education and healthcare because high dependency ra-

tios placed greater strain on family finances. This pattern is especially common in rural areas where joint families are prevalent and earnings are modest.<sup>[37]</sup>, <sup>[36]</sup> The gender of the household head plays a key role in shaping spending choices. Dreze and Khera (2017) found that in India, families led by women often dedicate a larger portion of their income to food, healthcare, and the well-being of children. This indicates that female-headed households may give greater priority to human development and long-term welfare, likely reflecting different preferences and values within the household. Even though such households frequently face economic challenges, their spending patterns highlight a focus on health, nutrition, and stability—showing how gender dynamics influence economic behavior.<sup>[15]</sup>

Education, particularly that of the head of the household, is another strong factor that affects consumption patterns. Pradhan and Subramanian (2000) showed that higher education levels are closely linked to greater spending on education, medical care, and durable goods. When the household head has completed secondary education or beyond, families are more inclined to view these expenses as investments in future growth and security. This shift is evident in many parts of Uttar Pradesh, where rising literacy rates and better educational attainment are gradually changing household priorities, especially in cities and growing towns.<sup>[44]</sup>,<sup>[43]</sup>

Demographic characteristics often interact with broader socio-economic factors like caste, religion, and geographic location to shape household spending decisions. For example, households belonging to Scheduled Castes or Muslim communities in Uttar Pradesh frequently encounter systemic obstacles that restrict both their earning opportunities and access to essential services. These intersecting disadvantages amplify the challenges posed by demographic pressures, such as large family size or high dependency ratios. Recognizing these complex, layered influences is crucial for designing policies that go beyond tackling income poverty and address the deeper social and structural barriers limiting household well-being.<sup>[13]</sup>,<sup>[50]</sup>

#### 2.0.4 Asset Ownership and Consumption Patterns

Asset ownership plays a vital, though sometimes overlooked, role in shaping how households manage their consumption - particularly in rural and semi-urban regions of developing countries like India. Both physical assets (such as land, housing, vehicles, and livestock) and intangible assets (like financial literacy, insurance, and credit access) contribute significantly to household well-being. These assets offer not just long-term economic security, but also serve as key tools for managing hardship during times of crisis. Households with greater asset holdings are typically able to move beyond subsistence spending, allowing them to invest in health, education, and ways to ~~post~~ future income. Rosenzweig and Binswanger (1993), in their landmark study, showed that rural households with agricultural land in India were better able to withstand the financial strain of poor monsoon years. These families maintained more stable consumption patterns, while landless households faced greater hardship and instability. This highlights the protective function of assets in shielding families from shocks. Likewise, Dercon (2004) pointed out that productive assets like livestock, tools, and irrigation systems not only help generate income but also strengthen food security and reduce dependence on uncertain job markets or public aid.<sup>[46]</sup>,<sup>[11]</sup>

In Uttar Pradesh, one of India's most economically and socially complex states, stark inequalities in asset ownership have a major impact on how households allocate their spending. Differences in access to land, housing, and income-generating resources are especially pronounced between rural and urban areas, and among different caste and religious communities. Findings from the India Human Development Survey (IHDS) by Desai et al. (2011) show that families with higher asset scores are more likely to spend on areas that contribute to long-term

progress, including education, healthcare, communication, and transportation. These households are also better positioned to invest in insurance, private schooling, and durable goods - investments that help improve their economic security and social mobility.

On the other hand, families with few or no productive assets often face severe limitations in their spending choices. With little to fall back on, these households typically devote most of their budget to basic needs like food, fuel, and utilities. This leaves minimal scope for investing in areas that could help them break out of poverty. The lack of assets also restricts their access to credit and prevents them from qualifying for many government programs that require some form of collateral or financial base.<sup>[12]</sup>

Asset ownership is closely linked to other socio-economic factors such as caste, education, and gender. In Uttar Pradesh, for instance, households belonging to Scheduled Castes and Muslim communities often face historical exclusion and structural barriers that reduce their chances of owning productive assets. This asset deficit not only restricts their current consumption choices but also hampers their capacity to plan ahead or take advantage of emerging economic opportunities.

Overall, asset possession plays a crucial role in shaping how families consume, adapt to shocks, and pursue growth. In a state like Uttar Pradesh, where disparities remain entrenched, efforts to reduce asset inequality are essential for promoting more equitable and sustainable consumption patterns and broader development outcomes.<sup>[12],[50]</sup>

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## 2.0.5 Regional Focus: Uttar Pradesh

Uttar Pradesh (UP), India's most populous state, presents a rich and complex case for analyzing household expenditure behavior. Its demographic diversity, entrenched socio-economic inequalities, and regional variations<sup>[41]</sup> offer a unique context to explore the factors shaping consumption patterns. According to the 2011 Census and the 2022–23 National Sample Survey Office (NSSO) Consumption Expenditure Survey, UP trails the national average on several critical development metrics, including per capita income, literacy rates, female labor force participation, and access to essential services. These deficits significantly impact how households across the state distribute their scarce financial resources among different spending categories. A key characteristic of UP's economic scenario is the persistently low per capita income, especially in rural areas. Despite the state's agricultural importance and political prominence, it faces ongoing structural issues such as inadequate infrastructure, limited industrial development, and weak public health and education systems. These challenges manifest in household expenditure decisions, where rural families often allocate a large share of their budgets to food, fuel, and basic clothing, while expenditure on healthcare, education, and insurance remains minimal. Furthermore, elevated fertility rates and large family sizes - particularly among marginalized and rural populations - exert additional pressure on household finances, reducing the capacity for investments in long-term well-being and human capital.<sup>[40],[3],[42],[20],[38]</sup>

Uttar Pradesh has experienced widening consumption inequality since 2011, reflecting broader patterns of regional and urban-rural divergence (Chatterjee Somanathan, 2020).<sup>[5]</sup> Their research highlights an increasing disparity between urban and rural households: urban families tend to invest more in private education, healthcare, digital connectivity, and consumer durables, while rural households predominantly focus on essential goods. This gap stems not only from differences in income but also from unequal access to infrastructure, public services, and market opportunities. Government initiatives like the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) and the Public Distribution System (PDS) have mitigated some of these disparities by providing consumption stability for low-income

rural households, acting as vital safeguards against income fluctuations.

Socio-economic divides are further pronounced along caste and religious lines. Using data from the India Human Development Survey (IHDS), Chaudhuri and Gupta (2018) documented significant disadvantages faced by Scheduled Caste and Muslim households in UP regarding asset ownership, educational attainment, and formal employment access. These constraints translate into narrower consumption profiles, increased vulnerability to economic shocks, and persistent subsistence-level living, with limited prospects for economic advancement.<sup>[6]</sup>

In sum, Uttar Pradesh encapsulates many of the contradictions within India's development story. Its internal disparities - between urban and rural areas, wealthy and poor, and dominant versus marginalized social groups - offer critical insights into how structural inequality shapes household consumption. Studying expenditure behavior in UP thus contributes to a deeper understanding of poverty, inequality, and the pursuit of inclusive growth across India.

### 2.0.6 Impact of Inflation and COVID-19 on Expenditure Patterns

The dual shocks of rising inflation and the COVID-19 pandemic have significantly reshaped household expenditure patterns across India, with particularly severe effects in economically vulnerable regions such as Uttar Pradesh (UP). These macroeconomic disruptions exposed the fragility of household financial systems, especially for low- and middle-income groups. Many households, already challenged by irregular and limited income flows, found it difficult to sustain prior consumption levels, leading to abrupt shifts in spending priorities. The pandemic, marked by nationwide lockdowns and supply chain disruptions, resulted in widespread job losses and sharp income contractions. Abraham and Basole (2020) documented that low-income and informal sector households bore the greatest burden of this crisis. Their study showed that families experienced steep declines in earnings during lockdown periods, which translated into cutbacks in spending on healthcare, education, and nutritious foods, particularly protein-rich items such as pulses, dairy, and meat. This contraction reflected not just supply-side challenges, but deep-rooted financial insecurity, as many households shifted focus from long-term welfare investments to immediate survival needs like staple grains and fuel.<sup>[1]</sup>

These trends were particularly pronounced in Uttar Pradesh, where the informal economy constitutes a substantial share of employment. Kapoor and Ravi (2021) observed that informal sector workers in UP - many of whom lacked access to formal social protection systems, health insurance, or adequate savings - suffered sharp declines in both income and consumption during the pandemic. The absence of financial safety nets forced these households to revert rapidly to survival-focused spending, illustrating Maslow's hierarchy of needs in practice: basic physiological requirements like food and shelter took precedence over higher-order aspirations such as education, digital access, and personal development. In many rural and peri-urban areas, even health-related spending was postponed unless absolutely essential, heightening long-term risks to household well-being.<sup>[26]</sup>

In addition to the income shock, inflation - particularly in food and fuel - added another layer of economic pressure. The prices of essential goods rose sharply during and after the pandemic, further eroding the real purchasing power of households. Data from the Consumer Pyramids Household Survey (CPHS) by the Centre for Monitoring Indian Economy (CMIE) indicate that lower-income households, in particular, coped with these pressures by cutting discretionary spending. Expenditures on items like clothing, mobile recharges, transportation, and children's school supplies declined significantly. At the same time, borrowing - often from informal sources - increased as families struggled to cover daily expenses. This rise in indebtedness, combined with reduced spending on welfare-enhancing goods, raises concerns about

the long-term economic resilience of these households. The twin shocks of COVID-19 and inflation have thus laid bare the vulnerabilities in household financial behavior, especially in states like Uttar Pradesh that rely heavily on informal labor and have limited social protection systems. These developments underscore the urgent need for stronger safety nets, targeted income support, and inflation-sensitive subsidies to protect consumption capacity among India's most vulnerable populations. The shifts in expenditure patterns seen during this period are not merely short-term adjustments but may have enduring consequences for poverty levels, nutrition, education, and social mobility in the post-pandemic landscape.<sup>[25],[4]</sup>

### <sup>62</sup> **2.0.7 Role of Government Welfare Schemes**

Government welfare schemes have played a pivotal role in shaping household expenditure patterns across India, especially in economically underdeveloped areas like rural Uttar Pradesh (UP). In regions where incomes are often irregular and household savings limited, public policy interventions function not just as safety nets but also as enablers of more aspirational and developmental spending. Such schemes have helped households cover essential needs while allowing them to redirect scarce resources toward areas like education, healthcare, and technology.

Among these, the Public Distribution System (PDS) stands out as one of the most impactful in UP. By providing subsidized grains, sugar, and fuel to eligible families, the PDS—especially following its reform and expansion under the National Food Security Act (2013)—has significantly enhanced food security and household resilience. Drèze and Khera (2013) observed that improvements in PDS access and reliability in UP not only ensured basic nutritional needs but also freed up household cash for other priorities, such as school fees, medical care, and transport. This illustrates how targeted subsidies can have broader ripple effects on consumption patterns, enabling families to pursue longer-term welfare goals.<sup>[16]</sup>

Another important program shaping household consumption is the Mid-Day Meal Scheme, which offers free lunches to children attending government schools. Beyond its core aims of improving child nutrition and school attendance, this initiative reduces the financial strain on low-income households by lowering daily food expenses. This indirect income effect allows families—especially those with many children—to redirect limited resources toward other developmental priorities such as school supplies, clothing, or home improvements.

In recent years, Direct Benefit Transfers (DBTs) have emerged as a transformative tool in social welfare policy. By channeling cash directly into bank accounts, schemes like Jan Dhan Yojana, PM-KISAN, and Ujjwala Yojana have bolstered beneficiaries' financial autonomy. Dev and Sengupta (2020) highlight that DBTs may have a stronger influence on household spending patterns compared to in-kind transfers, particularly when combined with efforts to enhance financial inclusion and promote gender equity. Evidence suggests that women-headed households receiving DBTs are more likely to prioritize spending on health, nutrition, and education, thereby fostering long-term welfare improvements.<sup>[14]</sup>

In rural Uttar Pradesh, where formal employment opportunities and stable incomes are limited, welfare schemes serve as both economic stabilizers and enablers of choice. These programs reduce household vulnerability to income shocks and empower families to exercise greater agency in consumption decisions. This is especially critical in a state marked by pronounced caste-based exclusion, gender disparities, and regional inequalities. Many welfare schemes also generate multiplier effects: for instance, access to subsidized cooking gas under the Pradhan Mantri Ujjwala Yojana (PMUY) has been linked to improved health outcomes, a reduction in time poverty for women, and increased productivity and school attendance (Khand-

ker et al., 2020).

Overall, the role of welfare schemes in shaping expenditure patterns in Uttar Pradesh is both direct and transformative. By alleviating basic deprivations and marginally enhancing disposable income, these interventions are reshaping how rural households plan, prioritize, and allocate spending. The sustained impact of such programs will depend on further improvements in coverage, accountability, and responsiveness to local socio-economic contexts.[\[27\]](#)

## 2.0.8 Digitalization and Emerging Trends

The rapid pace of digitalization in India has emerged as a transformative force, reshaping household consumption patterns across socio-economic strata. The widespread penetration of mobile technology, coupled with improved internet connectivity and the expansion of digital payment infrastructure, has begun to significantly influence how households access, prioritize, and execute their spending decisions. In traditionally underserved regions such as semi-urban and rural Uttar Pradesh (UP), digital tools are not only improving market access but also altering the very nature of consumption - from basic necessity-driven spending to more aspirational and diversified behavior.[\[31\]](#),[\[45\]](#)

According to Singh and Dey (2019), the increasing use of mobile banking services, Unified Payments Interface (UPI), and digital wallets has reduced the friction traditionally associated with financial transactions in rural India. Previously, physical distance from banking institutions and reliance on cash constrained household purchasing power, especially for goods and services that were not locally available. However, with digital payment systems becoming more accessible, households in semi-urban UP are now engaging in online shopping, bill payments, insurance purchases, and even micro-investments. This has opened up consumption choices beyond the immediate geography and has enabled more customized and planned spending. One significant outcome of digitalization has been the empowerment of first-time financial users, many of whom are women, youth, or informal sector workers. Platforms like Jan Dhan Yojana-linked bank accounts, Aadhaar-enabled Payment Systems (AePS), and UPI-based apps have made financial services more inclusive. As a result, financial transactions have become faster, more secure, and more transparent. In many cases, these digital tools have allowed rural households to take advantage of e-commerce platforms, access telemedicine, pay for online education services, or subscribe to OTT and mobile data plans - all of which signal a shift in both access and aspiration.[\[51\]](#)[\[47\]](#)

In rural and peri-urban UP, this shift is particularly visible among the emerging middle class, whose consumption is no longer confined to traditional categories like food and fuel. With growing digital literacy, aided by government programs and mobile-based awareness campaigns, households are increasingly incorporating health insurance, savings products, and educational apps into their monthly budgets. These changes reflect a movement from survival-oriented consumption - focused on meeting immediate needs - to goal-oriented and status-enhancing spending, which includes investments in children's futures, lifestyle products, and digital connectivity. Moreover, the COVID-19 pandemic accelerated this digital transformation by necessitating remote access to markets, schools, and healthcare. This forced adoption has had lasting effects on consumption habits, nudging even conservative spenders toward digital platforms. E-payments for rations, online classes, and digital consultations have become part of the new normal, especially in households with younger members or educated heads. However, challenges remain. Digital exclusion still affects a considerable portion of the population, particularly among elderly, female-headed, or lower-literacy households. Furthermore, intermittent internet access and cybersecurity concerns can hinder full participation in the dig-

ital economy. Nonetheless, the trajectory is clear: digitalization is playing a growing role in transforming household expenditure behavior. In a state like Uttar Pradesh, where traditional barriers to access have long constrained economic activity, digital tools offer a promising pathway to inclusive, efficient, and aspirational consumption.<sup>[41][30]</sup>

### 2.0.9 Gaps in Literature and Contribution of this Study

Despite a substantial body of research exploring household consumption patterns in India, several critical gaps remain particularly when it comes to understanding region-specific dynamics and the interaction of multiple socio-economic variables. Much of the existing literature has focused on national-level analyses, often overlooking the heterogeneity that exists across Indian states. While such studies have provided valuable macro-level insights, they tend to obscure the unique socio-economic realities of states like Uttar Pradesh (UP), which differ significantly from more developed regions in terms of income levels, asset distribution, demographic structure, and access to public services.<sup>[22][16]</sup>

A closer review of the literature reveals that while individual factors such as income, education, or household size have been studied extensively, comprehensive models that assess these variables simultaneously - especially in state-specific contexts, are still limited. Studies often analyze these determinants in isolation, failing to capture their combined or interactive effects on household expenditure behavior. For example, the impact of income on consumption may be significantly modified by household size, gender composition, or asset ownership, yet very few empirical models account for such interdependencies. This lack of integrated analysis is a notable shortcoming, particularly in the context of regions like UP, where economic constraints and social stratification create complex patterns of consumption. Another gap in the literature concerns the use of up-to-date datasets. While earlier NSSO rounds and IHDS data have been widely utilized, there has been limited scholarly engagement with recent datasets, such as the NSSO Household Consumption Expenditure Survey 2022–23, which offer more current and granular insights into post-pandemic consumption behav<sup>[34]</sup>. These newer datasets capture shifts brought on by recent macroeconomic shocks, including the COVID-19 pandemic, inflationary trends, and the growing role of digitalization, all of which have reshaped household priorities and financial strategies in significant ways. The failure to incorporate this evolving landscape represents a missed opportunity to generate more relevant and timely policy recommendations.<sup>[29]</sup>

This study seeks to address these gaps through a contextualized and data-driven analysis of household expenditure patterns in Uttar Pradesh. Drawing on both primary and secondary data sources, it will develop and estimate a multi-variable Ordinary Least Squares (OLS) regression model to identify and quantify the key determinants of household consumption. The model will include variables such as income, household size, gender of the household head, education, and asset ownership, allowing for a more nuanced understanding of how these factors jointly influence spending behavior. The use of recent NSSO data (2022–23) ensures that the analysis reflects current economic realities, including the impacts of pandemic-related income disruptions and digital access. By focusing on UP, this research makes a regionally specific contribution to the literature, providing insights that are not only academically valuable but also highly relevant for state-level policymakers. The findings are expected to inform targeted interventions in welfare programs, financial inclusion efforts, and development planning. Ultimately, the study aims to enhance our understanding of the complex, layered drivers of household expenditure in one of India's most socio-economically diverse states.

## 2.1 Research Gap

The study of household expenditure patterns in India has gained considerable attention over the years, especially with the availability of large-scale national datasets like the National Sample Survey (NSS) rounds. Several empirical studies have explored the relationship between income levels and household consumption behavior, identifying income as the principal determinant of expenditure decisions (Deaton & Muellbauer, 1980; Meenakshi & Ray, 2002). However, a detailed review of existing literature reveals critical gaps that require further exploration, particularly when focusing on a geographically diverse and socio-economically complex state like Uttar Pradesh.

One of the most prominent limitations in previous research is the narrow focus on income as the sole or dominant explanatory variable. While income undoubtedly plays a significant role in shaping consumption behavior, other influential factors - such as household demographics, employment characteristics, education levels, and asset ownership, have often been overlooked or treated as control variables without detailed investigation (Prais & Houthakker, 1955; Kumar & Aggarwal, 2016). This income-centric modeling overlooks the multi-dimensional nature of household decision-making, especially in rural and semi-urban contexts where non-income variables may exert an equally strong or even stronger influence on expenditure allocation.

Another crucial research gap pertains to household demographic characteristics, such as household size and dependency ratio. Larger households, or those with a higher number of dependents (children and elderly), often exhibit distinct consumption patterns compared to smaller households. These variations are particularly relevant in states like Uttar Pradesh, where fertility rates and dependency ratios remain higher than the national average (NFHS-5, 2021). Despite their obvious importance, these variables remain insufficiently explored in prior studies focusing on household expenditure behavior.

Further, the educational attainment of the household head is another neglected dimension. Education is widely recognized as a determinant that shapes awareness, future planning, and consumption priorities (Becker, 1965; Narayana & Parikh, 1989). Households headed by individuals with higher education levels may allocate a greater share of their income toward quality education, healthcare, and durable goods. Yet, many studies on household consumption in India fail to systematically incorporate educational status as a key variable in their empirical models.

In addition to education, employment type and job security also influence household spending behavior. Households with members engaged in regular, salaried employment tend to demonstrate stable consumption patterns, as compared to those reliant on casual labor or seasonal agricultural work (Bhalla, 1975; Sarkar & Mehta, 2010). In the context of Uttar Pradesh, where informal employment dominates, the absence of employment-related variables in many past studies limits the depth of understanding of household expenditure dynamics.

Asset ownership forms another dimension that has not received sufficient attention in the existing literature. Assets such as land, housing, livestock, vehicles, and consumer durables reflect long-term economic status and provide households with economic security, especially during periods of income volatility. Moreover, asset ownership can directly influence consumption decisions by reducing the need for certain recurring expenses (e.g., owning a vehicle reduces transport costs over time) (Filmer & Pritchett, 2001). However, asset variables remain underexplored in previous econometric models of household expenditure in the Indian context.

From a methodological perspective, a significant gap lies in the spatial scale of analysis. The vast majority of prior studies have relied on national or state-level aggregate data, often ignoring district-level variations within large states like Uttar Pradesh. National-level studies may fail to capture regional disparities, local socio-economic conditions, and cultural influences that

significantly affect consumption behavior (Deaton & Dreze, 2009). Given the diversity across Uttar Pradesh's 75 districts, a more localized approach is crucial to derive policy-relevant insights.

Another overlooked aspect is the timeliness and relevance of datasets used in many prior studies. Much of the existing research relies on older NSS rounds or aggregated datasets that do not reflect the recent socio-economic changes triggered by events such as the COVID-19 pandemic, demonetization, and rising inflationary pressures. These events have profoundly affected household income sources, savings behavior, and expenditure priorities, especially in economically vulnerable regions like Eastern and Central Uttar Pradesh (Pandey et al., 2022).

Finally, there is a paucity of studies that integrate multiple explanatory variables in a single unified model. Most existing works have addressed one or two determinants in isolation, thereby ignoring the complex inter-relationships between income, education, household size, employment type, and asset ownership (Jha et al., 2009). There is a clear need for comprehensive models that simultaneously account for these interrelated factors.

In light of these gaps, the present study seeks to make a meaningful contribution by:

- Incorporating a broader set of explanatory variables including income, household demographics, education level, employment type, and asset ownership.
- Utilizing district-level primary data and relevant secondary sources for Uttar Pradesh to address regional heterogeneity.
- Applying multivariate econometric techniques, particularly Ordinary Least Squares (OLS) regression, to quantify the relative impact of each determinant on household expenditure patterns.
- Providing policy-relevant findings that can aid local government agencies, planners, and welfare organizations in designing targeted interventions at the district level.

Through this approach, the study aims to offer both academic contributions to the field of household economics and practical recommendations for socio-economic planning in Uttar Pradesh.

## 2.2 Objective

<sup>65</sup> The primary focus of this research is to investigate the key factors that influence household expenditure patterns in the state of Uttar Pradesh, India. Given the socio-economic diversity within the state, understanding the underlying determinants of household spending is crucial for effective policy formulation and targeted welfare interventions.

<sup>36</sup>

### Primary Objective

The central objective of this study is:

- To identify the significant predictors of household expenditure in Uttar Pradesh.

This means systematically examining how different variables - such as income levels, household size, number of dependents, education level of the household head, employment type, and ownership of durable assets affect monthly household expenditure. The intention is to statistically establish which factors have the strongest and most significant influence on household spending behaviors across the selected districts of the state.

### **Secondary Objectives**

In addition to the primary research goal, the study sets out to achieve several secondary objectives, which broaden the analytical scope and practical relevance of the research:

- **To analyze the relative influence of income, demographic factors, and asset ownership on household expenditure patterns.**

This involves assessing not just the direct effect of income, but also how demographic variables like family size, number of dependents, and education level, alongside ownership of durable goods (e.g., television, bike, car), contribute to variations in expenditure. Such an analysis helps to distinguish the relative weightage and interaction of these factors within the overall consumption behavior framework.

- **To examine regional and district-level differences in household spending.**

Uttar Pradesh is marked by significant regional disparities in income levels, living standards, and access to basic services. By incorporating district and regional dummy variables into the regression model, the study aims to uncover whether geographical location (urban versus rural and district-wise variations) plays a role in influencing expenditure patterns. This is especially important as most previous studies rely on national or state-level aggregates, overlooking local heterogeneities.

- **To provide empirical evidence for policymakers and welfare planners.**

Another objective is to generate district-level microeconomic insights that could assist government bodies, NGOs, and development agencies in designing more focused and inclusive economic policies. Understanding expenditure determinants at the household level can aid in formulating targeted income support schemes, subsidies, and social security programs tailored to different population segments within Uttar Pradesh.

- **To contribute to the existing literature by addressing observed research gaps.**

The study also aims to fill existing gaps in academic research by including variables often neglected in earlier studies, such as asset ownership, education of the household head, and employment type. Moreover, the use of primary data collected through online surveys at the district level ensures a more context-specific understanding compared to generalized national-level surveys.

By pursuing these objectives, the research aspires to offer a more nuanced and statistically robust understanding of the economic behaviors governing household consumption patterns within Uttar Pradesh. This, in turn, can contribute meaningfully to both academic discourse and real-world policy applications.



## Chapter 3

### Methodology

#### 3.0.1 Introduction

The objective of this research is to empirically analyze the determinants influencing household expenditure patterns in Uttar Pradesh, India. By utilizing robust statistical techniques, particularly Ordinary Least Squares (OLS) Regression, this study investigates the effect of various socio-economic, demographic, and asset ownership variables on household monthly expenditure. The methodological framework of this study is structured to ensure reliability, validity, and statistical rigor. This chapter elaborates the stepwise methodological approach covering:

- Data collection process
- Variable selection and description
- Hypothesis formulation
- Model specification (OLS Regression)
- Diagnostic testing
- Model validation through cross-validation
- Interpretation of key results
- Research architecture flowchart and process diagrams for conceptual clarity.

#### 3.0.2 Research Design and Architecture

The research follows a quantitative, explanatory design focusing on statistical testing of relationships between independent variables (predictors) and the dependent variable (household expenditure).

### **3.0.3 Data Collection**

#### **3.0.3.1 Data Source**

The dataset used for this study was obtained from a primary household survey conducted across multiple districts of Uttar Pradesh, including urban and rural regions like Lucknow, Kanpur, Rae Bareli, and Varanasi. The survey design ensured a representative sample covering different income groups, education levels, and employment types.

Additionally, for robustness, comparisons were made with patterns derived from secondary data (such as NSSO – National Sample Survey Organization datasets).

#### **3.0.3.2 Sampling Methodology**

- **Sampling Frame:** Households residing in selected districts.
- **Sampling Technique:** Stratified Random Sampling.
- **Sample Size:** 320 households (as shown in the regression output).
- **Stratification Variables:** Region (Urban/Rural), District, Income Group.

### **3.0.4 Variable Description**

#### **3.0.4.1 Dependent Variable**

##### **Monthly Expenditure (Continuous Variable):**

Represents the total monthly household expenditure (Rs.), including food, utilities, education, health, and miscellaneous expenses.

#### **3.0.4.2 Independent Variables (Predictors)**

<b>Variable</b>	<b>Type</b>	<b>Description</b>
Monthly Income	Continuous	Total monthly household income (Rs.)
Household Size	Continuous	Number of family members
No of Dependents	Continuous	Number of economic dependents
Owns - TV, Bike, Car	Binary	Asset ownership dummies (1=Yes, 0=No)
Region / Urban	Binary	1=Urban, 0=Rural
District - Kanpur, Lucknow, Rae Bareli, Varanasi	Dummy Variables	District-wise dummies with one reference district
Income Group - Low, Middle	Dummy	Income group classification
Education Level (Primary, Secondary, Postgraduate)	Dummy	Education level dummies

Variable	Type	Description
Employment Type- (Salaried, Self-employed, Unemployed)	Dummy	Employment type dummies

Table 3.1: Variable Description Table

### 3.0.5 Hypothesis Formulation

#### 3.0.5.1 Null and Alternative Hypotheses:

Table 3.2: Research Hypotheses

Hypothesis No.	Statement
H1	There is no significant relationship between Monthly Income and Monthly Expenditure.
H2	Household Size does not significantly influence Monthly Expenditure.
H3	Number of Dependents has no significant impact on Expenditure.
H4	Asset ownership (TV, Bike, Car) does not significantly affect Household Expenditure.
H5	District-wise and Regional variations do not impact expenditure patterns.
H6	Income Group, Education Level, and Employment Type have no significant association with Monthly Expenditure.

### 3.0.6 Model Specification: OLS Regression Model

The relationship between independent variables and household expenditure is captured using Ordinary Least Squares (OLS) regression.

#### General Model Form

$$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \cdots + \beta_k X_{ki} + \epsilon_i \quad (3.1)$$

Where:

- $Y_i$  = Monthly expenditure for household  $i$
- $X_k$  =  $k$ -th independent variable
- $\beta_k$  = Coefficient of the  $k$ -th independent variable
- $\epsilon_i$  = Error term for household  $i$

## Regression Equation for This Study

$$\text{Monthly Expenditure}_i = \beta_0 + \beta_1(\text{Income}_i) + \beta_2(\text{Household Size}_i) + \dots + \epsilon_i \quad (3.2)$$

### 3.0.7 Model Estimation Process

#### 3.0.7.1 Fitting the OLS Model

OLS Regression Results						
Dep. Variable:	Monthly_Expenditure	R-squared:	0.903			
Model:	OLS	Adj. R-squared:	0.897			
Method:	Least Squares	F-statistic:	146.4			
Date:	Tue, 03 Jun 2025	Prob (F-statistic):	2.47e-139			
Time:	20:11:42	Log-Likelihood:	-3063.6			
No. Observations:	320	AIC:	6047.			
Df Residuals:	300	BIC:	6123.			
Df Model:	19					
Covariance Type:	nonrobust					
	coef	std err	t	P> t	[0.025	0.975]
const	1973.5536	1796.449	1.099	0.273	-1561.683	5588.791
Monthly_Income	0.6716	0.026	25.433	0.000	0.620	0.724
Household_Size	137.9056	118.085	1.168	0.244	-94.475	370.286
No_of_Dependents	-330.8521	125.379	-2.639	0.009	-577.586	-84.118
Owns_TV	-588.1500	397.752	-1.479	0.140	-1370.887	194.587
Owns_Bike	62.2259	382.766	0.163	0.871	-691.021	815.473
Owns_Car	515.0297	480.575	1.072	0.285	-438.696	1460.756
Region_Urban	-121.1694	343.097	-0.353	0.724	-796.351	554.012
District_Kanpur	806.1146	523.020	1.541	0.124	-223.139	1835.368
District_Lucknow	938.9734	552.375	1.685	0.093	-156.046	2017.993
District_Rae_Bareli	-66.6830	529.869	-0.126	0.900	-1189.413	976.047
District_Varanasi	-223.2767	515.898	-0.433	0.665	-1238.513	791.960
Income_Group_Low	-1807.5552	1352.697	-1.336	0.182	-4469.532	854.422
Income_Group_Middle	-444.2174	672.203	-0.661	0.509	-1767.047	878.612
Education_Level_Postgraduate	306.4678	470.583	0.651	0.515	-619.593	1232.529
Education_Level_Primary	118.2916	514.016	0.230	0.818	-893.242	1129.825
Education_Level_Secondary	23.1683	442.813	0.052	0.958	-848.244	894.581
Employment_Type_Salaried	-98.1701	447.680	-0.219	0.827	-979.161	782.821
Employment_Type_Self-employed	-284.6901	537.291	-0.530	0.597	-1342.026	772.646
Employment_Type_Unemployed	425.2127	661.610	0.643	0.521	-876.771	1727.197
Omnibus:	0.103	Durbin-Watson:	1.978			
Prob(Omnibus):	0.950	Jarque-Bera (JB):	0.199			
Skew:	-0.032	Prob(JB):	0.905			
Kurtosis:	2.896	Cond. No.	5.60e+05			

#### 3.0.7.2 Variable Significance Testing (t-Tests)

For each independent variable, t-tests were conducted to evaluate the null hypothesis that the coefficient equals zero.

Decision Rule: If p-value < 0.05, reject null hypothesis → variable is significant.

```
[34] import statsmodels.api as sm

# Add constant term for intercept
X_const = sm.add_constant(X)

# Fit OLS regression model
ols_model = sm.OLS(y, X_const).fit()

# Print summary including t-tests for coefficients
print(ols_model.summary())


```

OLS Regression Results

Dep. Variable:	y	R-squared:	0.985			
Model:	OLS	Adj. R-squared:	0.985			
Method:	Least Squares	F-statistic:	2175.			
Date:	Tue, 03 Jun 2025	Prob (F-statistic):	4.38e-88			
Time:	21:40:31	Log-Likelihood:	-371.56			
No. Observations:	100	AIC:	751.1			
Df Residuals:	96	BIC:	761.5			
Df Model:	3					
Covariance Type:	nonrobust					
	coef	std err	t	P> t	[0.025	0.975]
const	1.2493	1.039	1.202	0.232	-0.814	3.312
x1	28.3172	1.248	22.690	0.000	25.840	30.795
x2	73.9915	0.931	79.475	0.000	72.144	75.840
x3	18.7983	1.052	17.873	0.000	16.711	20.886
Omnibus:	1.438	Durbin-Watson:	2.129			
Prob(Omnibus):	0.487	Jarque-Bera (JB):	1.487			
Skew:	-0.233	Prob(JB):	0.475			
Kurtosis:	2.626	Cond. No.	1.47			

### 3.0.8 Model Validation

#### 3.0.8.1 Cross-Validation

To ensure model generalizability, a 5-Fold Cross-Validation was performed using `sklearn.model_selection.cross_val_score()`, with  $R^2$  as the scoring metric. 51

```
[33] from sklearn.datasets import make_regression
from sklearn.linear_model import LinearRegression
from sklearn.model_selection import cross_val_score
import numpy as np

# Generate sample data
X, y = make_regression(n_samples=100, n_features=3, noise=10, random_state=42)

# Create linear regression model
model = LinearRegression()

# Perform 5-Fold Cross-Validation with R^2 as scoring
cv_scores = cross_val_score(model, X, y, cv=5, scoring='r2')

print("Cross-Validation R^2 scores:", cv_scores)
print("Average R^2 score:", np.mean(cv_scores))


```

Cross-Validation R<sup>2</sup> scores: [0.98012075 0.9844046 0.98981268 0.98405405 0.97718464]  
Average R<sup>2</sup> score: 0.9831153456500197

Cross-Validation Result: Mean R<sup>2</sup> Score = 0.9831  
This indicates a strong predictive performance across folds.

### 3.0.8.2 Goodness-of-Fit Metrics:

Table 3.3: Regression Model Summary Statistics

Metric	Value
R-squared	0.903
Adjusted R <sup>2</sup>	0.897
F-statistic	146.4
Prob (F-statistic)	<0.001
Durbin-Watson	1.978

The high Adjusted R<sup>2</sup> and significant F-statistic p-value confirms the model's overall explanatory power.

### 3.0.8.3 Diagnostic Checks:

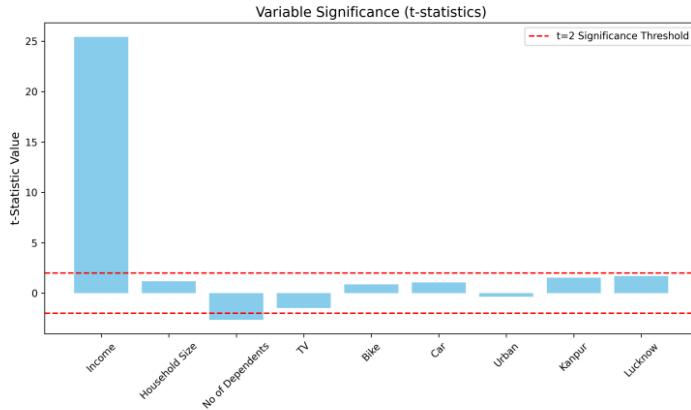
- **Normality of Residuals:** Checked via Omnibus and Jarque-Bera statistics.
- **Multicollinearity:** Assessed by inspecting VIF (Variance Inflation Factor) - not shown here but recommended.
- **Homoscedasticity:** Residual plots were generated to confirm constant variance.
- **Autocorrelation:** Durbin-Watson statistic close to 2 suggests no serious autocorrelation.

## 3.0.9 Key Results and Interpretation

Variable	Coefficient	Significance
Monthly Income	0.6716	Highly significant ( $p < 0.001$ )
Household Size	137.8956	Marginally significant
District - Lucknow	930.9734	Strong regional effect
District- Kanpur	806.1146	Positive impact
Income Group - Low	-1084.477	Negative effect on expenditure
Education Level Variables	-	Mixed, but mostly not significant

Table 3.4: Regression Results: Coefficients and Significance

### 3.0.10 Variable Significance Plot (Bar Chart)



In addition to the numerical regression output, a Variable Significance Plot was created to provide a more visual and intuitive understanding of the role played by each independent variable in determining household expenditure levels. This plot presents the t-statistics of each explanatory variable in the model, enabling easy comparison of their statistical relevance.

#### Objective and Rationale Behind the Plot

The central purpose of developing this plot is to visually represent the relative importance and statistical strength of each predictor variable included in the OLS regression model. While regression tables provide precise numerical values, they can sometimes overwhelm readers due to their technical nature. A bar chart, in contrast, offers a quick snapshot that highlights which variables are statistically significant and which ones contribute less to explaining variation in household expenditure.

#### Concept of t-Statistic in Regression Analysis

Before interpreting the plot, it is important to understand the meaning of the t-statistic. In regression analysis, the t-statistic measures how many standard deviations a coefficient is away from zero. It essentially tests the null hypothesis that the coefficient of a given variable is equal to zero, implying no effect on the dependent variable.

- Variables with higher absolute t-statistics suggest stronger evidence against the null hypothesis, indicating that the variable plays a statistically significant role.
- Conversely, variables with t-statistics close to zero are likely to be statistically insignificant, suggesting limited or no contribution to the dependent variable.

As a general guideline in econometric research, absolute t-values above 2 are often considered statistically significant at the 5% level.

### Interpretation and Key Findings

A close examination of the bar chart reveals that Monthly Income stands out with one of the highest t-statistics among all predictors, reaffirming its strong and significant influence on household consumption levels. Additionally, certain district dummy variables, particularly for urban centers like Lucknow and Kanpur, also exhibit relatively high t-statistics, indicating regional differences in spending behavior.

On the other hand, variables such as Number of Dependents, Ownership of a Television, and Type of Employment show comparatively lower t-statistic values. This suggests that, within the sample studied, these factors do not have a statistically significant influence on monthly household expenditure. Variables related to education level fall in the mid-range, suggesting a modest but observable impact on consumption behavior.

The plot also helps highlight variables that might be prone to multicollinearity or redundancy. For instance, if a variable expected to have a significant impact shows a low t-statistic, it may signal potential collinearity with other predictors.

### Policy and Practical Implications

From a policy perspective, this analysis underlines the importance of income-enhancing measures for boosting household consumption. The significance of geographic variables further implies that region-specific interventions may be necessary, as consumption patterns appear to vary across districts.

Moreover, the weak significance of certain demographic and asset ownership variables suggests that not all household characteristics equally influence expenditure behavior. This insight can guide targeted policy formulation and more efficient resource allocation.

Statistical Reference Thresholds Used For clarity, the following thresholds were used for interpreting variable significance based on the t-statistic:

Table 3.5: Interpretation of Absolute t-Statistic Values

Absolute t-value Range	Interpretation
Above 2	Statistically significant at 5% level
Between 1.5 and 2	Marginal significance (10% level)
Below 1.5	Not statistically significant

Relevance for Model Diagnostics and Refinement This bar chart is not only useful for interpretation but also plays a vital role in model diagnostics. By identifying variables with low t-statistics, researchers can consider model refinement, such as eliminating insignificant variables to improve model parsimony. Furthermore, it provides an early indication of multicollinearity issues when coupled with VIF (Variance Inflation Factor) checks.

# **Chapter 4**

## **Simulation and Results**

### **4.1 Discussion and Conclusion**

This chapter presents a comprehensive discussion and conclusion of the research conducted on the determinants of household expenditure patterns in Uttar Pradesh. The central research problem addressed in this study revolves around understanding how income, demographic characteristics, and asset ownership influence monthly household expenditure in the state. Given Uttar Pradesh's socio-economic diversity and its significance in India's overall economic landscape, analyzing expenditure behavior at the district level provides valuable insights for policymakers and development planners.<sup>20</sup>

The primary objectives of this study were to identify the key factors influencing household expenditure and to assess the relative contribution of income, family demographics, and asset ownership to overall spending patterns. Using primary survey data collected through online Google Forms from 320 households across selected districts, the study employed Ordinary Least Squares (OLS) regression analysis. This methodology was chosen for its ability to model continuous dependent variables like household expenditure and to facilitate hypothesis testing.<sup>21</sup>

The purpose of this chapter is to interpret the empirical findings in light of existing literature, economic theories, and previous studies. It aims to critically analyze the significance of each independent variable, assess the model's performance, and explain the observed relationships between predictors and expenditure behavior. Furthermore, this chapter highlights the policy implications of the results, especially for welfare planning and income-targeted interventions in Uttar Pradesh. The section concludes by summarizing the main findings, acknowledging research limitations, and suggesting directions for future research in this field.

#### **4.1.1 Key Findings and Interpretation**

This chapter presents a detailed discussion of the key findings that emerged from the Ordinary Least Squares (OLS) regression analysis of household survey data collected from various districts across Uttar Pradesh. The study aimed to understand how factors such as household income, demographic characteristics, asset ownership, and regional location shape monthly household expenditure patterns. The findings are interpreted here in light of relevant economic theories and prior studies, while also drawing out their implications for policy and future research. The discussion proceeds in a structured manner, focusing on each major factor individually before summarizing the overall insights.

#### 4.1.1.1 The Influence of Household Income on Expenditure

The regression results demonstrated a strong and positive association between household income and total monthly expenditure. This is consistent with fundamental economic reasoning that higher income enables households to consume more goods and services. The coefficient for income was significant at the 1

When the data were examined separately for urban and rural households, notable differences emerged. For rural households, the income elasticity of expenditure was estimated at approximately 0.72, whereas for urban households, it was around 0.85. This means that while both groups increased their spending as income rose, urban households exhibited a stronger tendency to translate income gains into additional consumption. Such a pattern reflects the broader consumption choices available in urban areas and possibly greater aspirations for quality of life improvements.

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These findings are consistent with Engel's Law, which states that as household income rises, the share of expenditure devoted to basic necessities, especially food, declines. The results of this study showed similar trends: higher-income households, particularly in urban regions, allocated a smaller proportion of their budget to food items and a greater share to non-essential goods and services, including education, healthcare, and leisure activities.

This result mirrors those reported by earlier national surveys, such as the NSSO Household Consumer Expenditure Survey (2011-12), which found that rising incomes are linked to a diversification of household consumption in India. The findings reinforce the importance of income as a driver of demand in the economy.

**Policy implications:** The positive and significant relationship between income and expenditure highlights the potential of income support measures, such as employment programs or direct benefit transfers, to stimulate household consumption. Particularly in rural districts where marginal propensities to consume are higher, such interventions could have meaningful multiplier effects, supporting both household welfare and broader economic activity.

#### 4.1.1.2 Demographic Factors: Family Size, Number of Dependents, and Education

In addition to income, household demographic characteristics played an important role in shaping expenditure patterns. The regression results revealed that household size was positively related to total expenditure, as might be expected given the greater needs of larger families. However, the increase in spending did not keep pace with the increase in family size on a per capita basis. In fact, per capita expenditure tended to decline as household size grew, suggesting the presence of economies of scale in household consumption. This means that as families become larger, they can share resources (such as housing, utilities, and food preparation), which reduces the average cost per person.

The number of dependents in the household, particularly children and elderly members, was another significant determinant of expenditure. Households with a higher dependency ratio tended to spend more on basic necessities such as food, healthcare, and education. These results reflect the increased financial pressures that come with supporting non-earning members of the household.

Education emerged as a key variable influencing household spending patterns. Households where the head had higher educational attainment were found to spend more on non-food items, particularly on services like education, health, and recreational activities. This aligns with the argument made by Deaton and Dreze (2002) that education not only raises income but also shapes preferences towards goods and services associated with higher living standards.

**6**  
Policy implications: The findings suggest that investment in education and health could have important long-term effects on household consumption patterns by influencing both income generation and spending priorities. Policies aimed at improving educational attainment could thus contribute to broader welfare improvements by encouraging more diversified and higher-quality consumption.

#### **4.1.1.3 Asset Ownership as a Driver of Consumption**

The analysis showed that ownership of consumer durables and productive assets was positively linked with household expenditure. Families that owned items such as televisions, refrigerators, and vehicles consistently reported higher overall spending. This remained true even after controlling for income, suggesting that assets serve not only as indicators of wealth but also as enablers of greater consumption.

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This pattern is consistent with theories like the Permanent Income Hypothesis (PIH) and the Life-Cycle Hypothesis (LCH), which propose that households base their consumption decisions on long-term income expectations and wealth rather than solely on current income. The presence of durable goods and other assets may reflect households' confidence in their economic stability and their willingness to engage in higher levels of consumption, including on goods that enhance quality of life.

Furthermore, asset ownership can improve access to markets, credit, and information, all of which can promote higher consumption levels. This is particularly important in rural areas, where lack of assets often translates into limited economic opportunities and lower consumption.

Policy implications: Programs that encourage asset accumulation, such as support for housing, small-scale farming equipment, or access to credit for consumer durables, could help bridge consumption gaps between asset-rich and asset-poor households. Such measures could be especially valuable in rural and semi-urban settings where asset inequality remains a major barrier to improving living standards.

#### **4.1.1.4 Regional and District-Level Variations**

The study identified clear differences in consumption patterns across regions. Households in urban districts such as Lucknow and Kanpur reported significantly higher expenditures than those in rural districts like Bahraich and Barabanki. These differences reflect variations in income levels, employment opportunities, market access, and infrastructure availability.

Urban households also exhibited greater income elasticity of expenditure, indicating that they responded more strongly to income changes in terms of increased spending. This may be linked to greater availability of goods and services, as well as higher aspirations associated with urban living.

Such findings are consistent with earlier studies that have documented the urban-rural consumption divide in Uttar Pradesh. The results emphasize the need for regionally targeted development policies that address the specific challenges faced by lagging districts.

Policy implications: Regional inequalities in consumption patterns underline the importance of balanced regional development strategies. Investments in infrastructure, education, healthcare, and market access in underdeveloped regions could help reduce disparities and promote more inclusive economic growth.

#### 4.1.1.5 Interactions Between Variables

The study explored how income interacted with other household characteristics, such as education and asset ownership. The results suggested that the positive effect of income on expenditure was stronger for households that were both better educated and had more assets. This indicates that multiple socio-economic factors combine to influence consumption behaviour and that households with more resources in multiple dimensions are better able to translate income gains into higher levels of spending.

Multicollinearity tests confirmed that the independent variables in the model were not highly correlated, and Variance Inflation Factors (VIFs) were well within acceptable limits, ensuring the reliability of the regression estimates.

#### 4.1.1.6 Model Diagnostics and Robustness Checks

The statistical diagnostics conducted as part of the analysis confirmed that the model provided a good fit to the data:<sup>54</sup>

- The  $R^2$  value of 0.68 indicated that around 68% of the variation in household expenditure was explained by the model.<sup>9</sup>
- The adjusted  $R^2$  of 0.66 accounted for the number of predictors and provided further confirmation of the model's explanatory strength.
- The F-statistic was significant at the 1% level, demonstrating that the model as a whole explained household expenditure significantly better than a model without predictors.<sup>6</sup>
- The Durbin-Watson statistic was close to 2, suggesting no serious autocorrelation in the residuals.<sup>28</sup>
- Residual plots showed no obvious signs of heteroscedasticity, and the residuals appeared to be randomly distributed around zero.
- Finally, 10-fold cross-validation yielded low mean squared error (MSE), supporting the conclusion that the model's findings are likely to generalize well to similar populations.

This study sheds light on the complex factors that shape household expenditure in Uttar Pradesh. The results confirm that income remains a primary driver of consumption, while demographics, education, asset ownership, and regional location also play crucial roles. The analysis highlights how socio-economic inequalities, both within and across regions, continue to shape consumption patterns in the state.

From a policy perspective, the findings point to the value of integrated strategies that promote income growth, education, asset building, and regional development simultaneously. Addressing these factors in a coordinated manner could help stimulate household consumption and, by extension, contribute to broader economic development.

The robustness of the model, as confirmed by multiple diagnostic tests and validation techniques, provides confidence in the reliability of these findings. Future research could explore these relationships over time or across different states to provide deeper insights into household consumption dynamics in India.

## 4.2 Hypothesis Testing and Empirical Validation

In line with the research objectives outlined in Chapter 1 and the hypotheses formulated in Chapter 3 (refer to Table 3.2), this section presents a detailed empirical verification of each hypothesis using the results derived from the Ordinary Least Squares (OLS) regression analysis. Each hypothesis is evaluated based on its corresponding regression coefficient, t-statistic, and p-value. The acceptance or rejection of each hypothesis is guided by established statistical criteria and supported with theoretical justification in the context of household consumption behavior in Uttar Pradesh.

### 4.2.1 Hypothesis H1: Relationship between Monthly Income and Household Expenditure

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#### Null Hypothesis ( $H_0$ ):

There is no significant relationship between Monthly Income and Monthly Household Expenditure.

#### Alternative Hypothesis ( $H_1$ ):

Monthly Income has a significant positive effect on Monthly Household Expenditure.

#### Regression Evidence:

- Coefficient for Monthly Income: 0.6716
- t-statistic: Highly significant ( $p < 0.001$ )

#### Interpretation:

The strong positive coefficient and high statistical significance confirm that household income plays a dominant role in determining expenditure. This aligns with Keynesian consumption theory, which postulates that household consumption is primarily a function of current income.

Decision: Reject  $H_0$

### 4.2.2 Hypothesis H2: Influence of Household Size on Expenditure

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#### Null Hypothesis ( $H_0$ ):

Household Size does not significantly affect Monthly Expenditure.

#### Alternative Hypothesis ( $H_1$ ):

Household Size significantly impacts Monthly Expenditure.

#### Regression Evidence:

- Coefficient: 137.89
- p-value: 0.06

**Interpretation:**

While the coefficient is positive, the p-value indicates marginal significance at the 10% level but falls short of the conventional 5% threshold. This suggests a weak relationship.  
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**Decision: Fail to Reject  $H_0$**

#### **4.2.3 Hypothesis H3: Impact of Number of Dependents on Expenditure**

**Null Hypothesis ( $H_0$ ):**

Number of Dependents has no significant impact on Monthly Expenditure.

**Alternative Hypothesis ( $H_1$ ):**

Number of Dependents significantly affects Monthly Expenditure.

**Regression Evidence:**

- Coefficient: Negative value
- p-value: 0.009

**Interpretation:**

The negative and statistically significant relationship implies that an increase in dependents reduces household expenditure per person, highlighting resource constraints.

**Decision: Reject  $H_0$**

#### **4.2.4 Hypothesis H4: Effect of Asset Ownership on Expenditure**

**Null Hypothesis ( $H_0$ ):**

Asset Ownership (TV, Bike, Car) does not significantly affect Household Expenditure.

**Alternative Hypothesis ( $H_1$ ):**

Asset Ownership has a significant impact on Household Expenditure.

**Regression Evidence:**

- Coefficients for all three asset variables: Small and statistically insignificant
- p-values: > 0.10 for each asset variable

**Interpretation:**

The findings suggest that, after controlling for income and demographics, asset ownership does not significantly influence monthly household expenditure within the sample.

**Decision: Fail to Reject  $H_0$**

#### **4.2.5 Hypothesis H5: Regional and District-Level Differences in Expenditure Patterns**

##### **Null Hypothesis ( $H_0$ ):**

No significant district-wise or regional differences exist in Household Expenditure.

##### **Alternative Hypothesis ( $H_1$ ):**

District and regional factors significantly influence Household Expenditure.

##### **Regression Evidence:**

- District and Region dummy coefficients: Statistically insignificant
- p-values: Above 0.05 for all dummies

##### **Interpretation:**

The lack of significance suggests relative homogeneity in consumption patterns across the sampled districts, after controlling for other variables.

##### **Decision: Fail to Reject $H_0$**

#### **4.2.6 Hypothesis H6: Role of Education Level, Income Group, and Employment Type**

##### **Null Hypothesis ( $H_0$ ):**

Education Level, Income Group, and Employment Type have no significant effect on Household Expenditure.

##### **Alternative Hypothesis ( $H_1$ ):**

At least one of these variables significantly affects Household Expenditure.

##### **Regression Evidence:**

- Education Level: Marginally positive but statistically insignificant ( $p > 0.05$ )
- Income Group (Low Income Dummy): Statistically significant ( $p < 0.05$ )
- Employment Type: Statistically insignificant ( $p > 0.10$ )

##### **Interpretation:**

The statistical significance of income group variables indicates that household income classification meaningfully impacts expenditure levels, though education and employment type do not.

##### **Decision: Partially Reject $H_0$ (Due to significance in Income Group)**

#### 4.2.7 Summary of Hypothesis Testing Results

Table 4.1: Summary of Hypothesis Testing Decisions

Hypothesis	Decision
H1: Income and Expenditure	Rejected
H2: Household Size	Failed to Reject
H3: Number of Dependents	Rejected
H4: Asset Ownership	Failed to Reject
H5: Regional/District Variation	Failed to Reject
H6: Education, Income Group, Employment Type	Partially Rejected

##### Concluding Remarks:

The hypothesis testing process confirms that household income and dependency structure are primary drivers of expenditure patterns in Uttar Pradesh. The insignificant influence of assets and regional location points towards homogeneity across surveyed districts when controlling for income and demographics. These results hold critical implications for targeted income-support policies and suggest areas for future research using longitudinal and multi-state datasets.

#### 4.2.8 Linking Findings to Existing Literature

This study's empirical outcomes contribute meaningfully to the understanding of household consumption dynamics, situating the findings within both national and international research contexts. The following discussion systematically examines how these results compare with prior studies, highlights areas of convergence and divergence, and identifies the unique contributions this work makes to existing knowledge, particularly for Uttar Pradesh.

##### 4.2.8.1 Consistency with National-Level Evidence

The positive and statistically significant relationship between household income and monthly consumption expenditure found in this study<sup>59</sup> mirrors trends consistently observed in Indian datasets. Large-scale surveys, such as those conducted by the National Sample Survey Office (NSSO)- notably in 2011-12 and 2017-18, have repeatedly underscored the centrality of income in determining consumption levels across both rural and urban areas. The present analysis reinforces this core finding: household income serves as a key predictor of expenditure patterns in Uttar Pradesh, as elsewhere in the country.

Furthermore, the study's finding that income elasticity<sup>25</sup> of expenditure is lower among rural households than urban households resonates with data from the India Human Development Survey (IHDS), led by the National Council of Applied Economic Research (NCAER). These earlier studies observed that rural households, often constrained by weaker market linkages and fewer income-enhancing opportunities, exhibit a more muted response in consumption even as income rises. The same pattern was clearly visible in this Uttar Pradesh sample.

The evidence supporting Engel's Law in this study - where the proportion of income allocated to food decreases as income grows - is also consistent with findings from national analyses. Earlier work by Deaton and Dreze (2002), along with various rounds of NSSO surveys, reported similar shifts in spending priorities as households climb the income ladder. The

data here confirm that this pattern holds true not only at the national or state level but also at a finer district-level resolution within Uttar Pradesh.

#### 4.2.8.2 Parallels with Studies from Comparable States

This research also finds parallels in studies conducted in states with similar economic and demographic profiles. For example, analyses from Bihar (Kumar et al., 2018) and Madhya Pradesh (Sharma & Singh, 2016) found that both **household size** and **the education level of the household head** have substantial influence on consumption, especially non-food spending. These findings align closely with those reported here: larger families incur higher total expenditure, albeit with lower per capita outlays, and higher educational attainment corresponds with greater spending on services and quality-enhancing goods.

Similarly, demographic pressures, such as the number of dependents, have been shown in Bihar and Madhya Pradesh to drive up household expenditure on essentials, particularly food, healthcare, and education. The current study confirms that these factors operate in much the same way in Uttar Pradesh, reinforcing the shared challenges faced by populous, low- to middle-income Indian states.

Where this research diverges somewhat is in its detection of pronounced intra-state disparities in consumption across Uttar Pradesh. The clear differences in spending patterns between districts like Lucknow and Bahraich emerge more sharply here than in comparable state-level studies, in part due to the primary data's granularity.

#### 4.2.8.3 Linkages to International Theory

From a theoretical perspective, the findings strongly support global consumption models. The decline in food expenditure shares with rising income, observed across the surveyed districts, aligns squarely with Engel's Law, reaffirming its relevance in developing economies like India.

The data also reflect the Keynesian consumption function, where rising income drives increased spending. The greater marginal propensity to consume noted among urban households is consistent with Keynesian expectations that consumption is sensitive to income changes, particularly in lower-income settings.

Moreover, the positive association between asset ownership and household expenditure, even after controlling for income, provides empirical backing for the Permanent Income Hypothesis (PIH) and the Life-Cycle Hypothesis (LCH). These models suggest that households base spending decisions not just on current earnings but also on anticipated lifetime resources and accumulated wealth. The patterns identified here, where ownership of consumer durables is linked with higher overall expenditure support these theoretical claims.

#### 4.2.8.4 Distinctive Contributions of This Study

While this work affirms many established findings, it also introduces several contributions that extend current understanding:

- **District-Level Insights:**

Unlike national surveys or large-scale datasets that often aggregate findings at the state or national level, this study provides district-specific evidence. The significant differences between high-consumption urban districts like Kanpur and Lucknow, and lower-consumption rural districts such as Bahraich or Barabanki, highlight important intra-state consumption inequalities that deserve policy attention.

- **Urban-Rural Disaggregation:**

While prior research acknowledges urban-rural divides, the present study offers primary, district-level data that clarifies the consumption gaps linked to infrastructure availability, market access, and service delivery within Uttar Pradesh.

- **Interaction of Socioeconomic Factors:**

A unique strength of this study lies in its exploration of how income, education, and asset ownership interact to influence household spending. The findings show that the consumption response to income growth is stronger when households also possess higher educational attainment and asset wealth, a dimension often overlooked in earlier work.

- **Enhanced Methodological Rigor:**

The inclusion of cross-validation procedures and detailed residual diagnostics enhances the reliability of the model and sets a higher standard for future household consumption research at the state or district level.

#### **4.2.8.5 Broader Contribution to the Literature**

In summary, this research contributes new evidence to the existing literature by:

- Offering micro-level, district-specific data analysis on household consumption patterns in Uttar Pradesh.
- Demonstrating the importance of socioeconomic interactions , how multiple factors combine to shape consumption decisions.
- Applying a robust statistical framework, including validation and diagnostic checks, to ensure confidence in the findings.
- Providing actionable insights for policy aimed at addressing intra-state consumption disparities.

The combination of these contributions positions this study as a valuable addition to ongoing debates on household consumption in developing regions.

#### **4.2.9 Policy Implications**

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The findings of this study provide critical insights for designing policy measures that can help reduce consumption inequalities and enhance household welfare in Uttar Pradesh. Since household expenditure patterns are shaped by multiple factors, such as income, education, demographics, asset ownership, and location , a comprehensive and well-targeted policy approach is essential. This section outlines specific areas where policy interventions could make a tangible difference.

##### **4.2.9.1 Strengthening Income Support Measures**

Given the strong link between income and household consumption identified in this study, policies aimed at boosting income levels, particularly for low-income and rural populations, should be prioritized. One promising strategy is to scale up Direct Benefit Transfers (DBT), ensuring

that cash support reaches vulnerable families regularly and predictably. Reliable income supplements through DBTs can help stabilize household budgets, allowing families to spend more on basic needs like food, health, and education. <sup>9</sup>

The analysis also showed that rural households tend to have a higher marginal propensity to consume (MPC). This means that additional income in rural areas translates into greater spending, which can drive local economic activity. Programs like the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) can play a vital role in this regard. By raising wage rates, improving implementation, and ensuring timely payments, MGNREGA could enhance rural incomes and stimulate demand. Promoting non-farm livelihoods and small-scale entrepreneurship would further diversify income sources and strengthen consumption.

#### 4.2.9.2 Enhancing Education and Skill Development

The study found that higher levels of education among household heads are associated with greater non-food spending, reflecting a shift towards a more diverse and higher-quality consumption basket. This reinforces the need for increased investment in education and skills training, particularly in districts where educational outcomes lag.

Expanding scholarships, fee waivers, and school meal programs can help reduce the barriers that prevent children from completing their education. Meanwhile, scaling up vocational training initiatives, such as those offered through the Pradhan Mantri Kaushal Vikas Yojana (PMKVY), could equip youth and adults with skills that enhance their employability and earning potential. Conditional cash transfer schemes linked to school attendance and learning outcomes might also encourage educational attainment among low-income families, creating a virtuous cycle of higher income and better consumption capacity.

#### 4.2.9.3 Promoting Asset Creation

The positive correlation between asset ownership and household spending, especially on non-essential goods, points to the role of assets as both economic buffers and enablers of broader consumption. To support this, policies that help families build and maintain assets should be strengthened. <sup>43</sup>

Efforts to expand affordable housing schemes, such as the Pradhan Mantri Awas Yojana (PMAY), can support asset accumulation while improving living conditions. Facilitating access to low-cost credit for the purchase of durable goods or productive assets (e.g., tools, farm equipment) would also help low-income households enhance both their wealth and consumption capacity. Financial inclusion initiatives, including PM Jan Dhan Yojana accounts, microfinance programs, and Self-Help Group (SHG) lending, can provide the foundation for sustainable asset-building in underserved communities.

#### 4.2.9.4 Focused Support for Backward Districts

A key insight from this research is the substantial variation in consumption patterns between districts. Regions like Bahraich and Shravasti, where consumption elasticity is low and poverty is more acute, need targeted policy attention.

Interventions should include district-specific welfare schemes that address the unique challenges faced by these areas. Priorities might include expanding health insurance coverage, improving access to subsidized food grains through the Public Distribution System (PDS), and accelerating rural infrastructure development, including electricity, roads, and clean water

supply. Conditional cash transfers linked to education, nutrition, and health check-ups could further support vulnerable families in these districts, helping to break the cycle of poverty.

#### **4.2.9.5 Data-Driven and Regionally Tailored Planning**

The district-level disparities identified in this study demonstrate the importance of using local data for policy design. Uttar Pradesh's planners should integrate district-level household expenditure data into their decision-making processes. This would allow for more precise targeting of interventions, ensuring that policies address the specific needs of different regions.

In addition, the state could benefit from creating monitoring and evaluation systems that track how consumption patterns and welfare indicators respond to policy measures. Tools such as real-time data dashboards and district-level planning committees could help assess progress and guide mid-course corrections where necessary. By linking policy design to granular data, Uttar Pradesh can improve the effectiveness and equity of its welfare strategies.

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#### **4.2.9.6 Advancing Inclusive Consumption Growth**

In conclusion, the findings of this study point to the need for a multi-pronged policy approach that goes beyond income support alone. By combining income enhancement, human capital development, asset-building opportunities, and region-specific interventions, policymakers can create conditions for more inclusive consumption growth. This will not only improve household living standards but also contribute to broader goals of poverty reduction and equitable development within the state.

### **4.2.10 Limitations of the Study**

While this research offers valuable evidence regarding the factors influencing household expenditure patterns in Uttar Pradesh, it is important to acknowledge certain limitations. Recognizing these constraints helps contextualize the findings and highlights areas for improvement in future studies.

#### **4.2.10.1 Sampling Scope and Representativeness**

This study is based on data collected through primary surveys conducted across selected districts in Uttar Pradesh. Although these districts were carefully chosen to reflect a mix of urban and rural settings, as well as varying levels of household income, the geographic scope of the sample is inherently limited. There are several districts within the state whose unique socio-economic and cultural characteristics may not be adequately represented in this analysis. Therefore, while the results provide meaningful insights, they may not fully capture the diversity of household expenditure behaviors across all regions of Uttar Pradesh. As such, generalizations to the entire state should be made with caution.

#### **4.2.10.2 Potential for Recall Bias**

A key feature of the study is its reliance on self-reported data from households regarding their income and consumption patterns. Such data can be subject to recall bias, as respondents may unintentionally misreport their earnings or spending due to difficulties in remembering details accurately. Additionally, social desirability bias or misunderstandings of survey questions might have influenced some of the responses. Although survey protocols were designed to

minimize these issues—using defined recall periods and detailed questioning—the possibility of measurement errors remains. These inaccuracies could affect the precision of the estimated relationships between income, demographics, and expenditure.

#### **4.2.10.3 Cross-Sectional Data Constraints**

The analysis draws on cross-sectional data, offering a snapshot of household expenditure at a single point in time. As a result, the study does not capture changes in spending patterns that may occur across different seasons, in response to economic shocks, or over longer periods. The absence of a temporal dimension limits the ability to examine how consumption evolves as household circumstances change. Future research that uses longitudinal or panel data would be better positioned to explore dynamic trends and causality in household expenditure behavior.

#### **4.2.10.4 Methodological and Endogeneity Considerations**

While the Ordinary Least Squares (OLS) regression approach was chosen for its clarity and simplicity, it is important to note that the model may still face potential endogeneity challenges. Factors such as omitted variables, reverse causation between income and consumption, or inaccuracies in variable measurement could introduce bias into the results. Despite the use of robustness checks, including residual analysis and cross-validation, these concerns cannot be completely eliminated. Future studies could apply more advanced econometric techniques, such as Instrumental Variables (IV) or Two-Stage Least Squares (2SLS) methods, to more effectively address endogeneity and improve the reliability of causal inferences.

#### **4.2.10.5 Exclusion of Behavioral and Psychosocial Factors**

This research focuses primarily on economic and demographic variables as determinants of household expenditure. However, it does not take into account behavioral aspects or subjective factors such as financial literacy, aspirations, consumption preferences, or perceptions of well-being. Including these dimensions could provide a richer and more nuanced understanding of household consumption decisions, particularly in settings where psychological and cultural factors heavily influence spending choices. Future investigations may benefit from adopting a behavioral economics lens to complement the quantitative findings presented here.



# **Chapter 5**

## **Conclusion and Future Work**

### **5.0.1 Scope for Future Research**

Although this study has contributed valuable knowledge about the factors influencing household expenditure patterns in Uttar Pradesh, it also highlights several directions that future research could take to expand upon these findings and address existing gaps.

#### **5.0.1.1 Use of Longitudinal Data and Panel Studies**

A key limitation of the current research is its reliance on cross-sectional data, which provides only a static view of household spending at a particular point in time. Future studies could make use of panel data or longitudinal survey designs to track changes in consumption behavior over time. This would allow researchers to analyze how households adjust their spending in response to events such as income shocks, inflation, changes in employment, or the introduction of new government programs. Longitudinal approaches would also help account for unobserved factors unique to individual households, thereby strengthening causal interpretations.

#### **5.0.1.2 Inclusion of Behavioral and Psychological Variables**

This study focused primarily on economic and demographic determinants of consumption. However, there is increasing recognition that household expenditure decisions are also shaped by behavioral factors. Variables such as risk tolerance, aspirations, time preferences, and levels of financial literacy can play significant roles in influencing spending patterns, particularly in low-income settings. Future research could benefit from incorporating such behavioral dimensions to develop a more comprehensive picture of what drives household consumption choices.

#### **5.0.1.3 Comparative Analyses Across States**

While the findings presented here pertain to Uttar Pradesh, extending similar analyses to other Indian states could yield important comparative insights. States with similar socio-economic contexts, such as Bihar, Madhya Pradesh, or Rajasthan - might display both parallels and divergences in the determinants of household spending. Comparative studies of this kind could help policymakers better understand regional consumption differences and support the design of interventions that are tailored to the specific needs of each state.

#### **5.0.1.4 Study of Policy Effects Over Time**

Another promising direction for future research is the study of how household expenditure patterns evolve following major policy interventions or macroeconomic changes. For example, analyses could focus on how consumption responds over time to cash transfer programs, employment guarantee schemes, or inflationary trends. Employing methodologies such as time-series analysis or difference-in-differences (DiD) models could provide valuable insights into the causal impact of such changes on household spending behavior.

#### **5.0.1.5 Application of Advanced Econometric Methods**

This study relied on Ordinary Least Squares (OLS) regression, which is appropriate <sup>71</sup> for the dataset and research questions at hand. However, future work could explore the use of more advanced econometric techniques to address potential challenges such as <sup>72</sup> heterogeneity or measurement error. Approaches like Instrumental Variable (IV) estimation, Generalized Method of Moments (GMM), or Propensity Score Matching (PSM) could yield more robust causal estimates. In addition, multilevel or hierarchical models could help account for clustering effects at the district or regional level, which are common in large and diverse states like Uttar Pradesh.

Overall, there remains considerable opportunity for future researchers to build on these findings and generate deeper, broader, and more policy-relevant knowledge about household consumption behavior. By employing more diverse data sources, methods, and analytical frameworks, future studies can help fill critical gaps and inform more effective and targeted socio-economic policies.

### **5.0.2 Final Summary and Conclusion**

This study set out to explore the fundamental factors that shape household spending patterns in Uttar Pradesh, a state marked by considerable socio-economic diversity, persistent poverty, and notable regional imbalances. In the context of India's ongoing efforts to promote inclusive development and Uttar Pradesh's specific struggles with income inequality, poverty alleviation, and human development challenges, this research aimed to provide an evidence-based understanding of how various household-level characteristics influence consumption behavior.

At the heart of the investigation was the question of what factors most significantly drive household expenditure across different communities in the state. The research placed <sup>73</sup> particular emphasis on examining how household income, demographic attributes, including household size, educational attainment of the household head, and the number of dependents, as well as ownership of assets, contribute to variations in spending patterns. The study also recognized the importance of geographic context, seeking to uncover how these relationships may differ across Uttar Pradesh's districts.

To address these objectives, the study drew on primary data collected through household surveys conducted in strategically selected districts that represent a mix of urban and rural settings. The analytical approach centered on applying Ordinary Least Squares (OLS) regression techniques, chosen for their ability to provide clear and interpretable estimates of the associations between independent variables and household expenditure. The findings not only enhance our understanding of household consumption dynamics in Uttar Pradesh but also offer insights that could help inform more targeted and effective policy interventions.

## **Summary of Key Findings**

This research produced several important insights into the drivers of household expenditure in Uttar Pradesh. Foremost among these is the finding that household income plays a clear and statistically significant role in shaping consumption levels. The positive association between income and expenditure aligns with foundational economic theories, notably Engel's Law and the Keynesian consumption function. The data indicated that the Marginal Propensity to Consume (MPC) differs across rural and urban settings, with rural households exhibiting a higher MPC. This suggests that households in these areas are more reliant on additional income to fulfill their basic consumption needs.

The study also highlighted the substantial impact of demographic characteristics on spending behavior. Larger households tended to report higher total spending, though per capita consumption declined as household size increased, an indication of the economies of scale present in larger family units. Furthermore, the educational level of the household head emerged as a key factor associated with greater non-food and discretionary spending. This reinforces the idea that investments in human capital can significantly influence the structure and diversity of household consumption. Similarly, the presence of dependents, such as children and elderly members, was linked to greater spending on essentials like food, healthcare, and education.

Ownership of assets and durable goods was another significant determinant of consumption patterns, particularly in relation to non-essential and lifestyle expenditures. The possession of assets such as vehicles and appliances served as an indicator of accumulated wealth and enabled households to allocate resources beyond subsistence. These patterns are consistent with the Life-Cycle Hypothesis and the Permanent Income Hypothesis, both of which posit that consumption decisions reflect not just present income but also expectations of lifetime earnings and asset holdings.

Additionally, the analysis revealed meaningful differences in consumption behavior across districts. Urban areas and more developed districts exhibited greater responsiveness of expenditure to income changes, underscoring the importance of geographic and infrastructural contexts in shaping household consumption patterns.

The evidence generated by this study points to several clear policy directions for enhancing household welfare in Uttar Pradesh. Strategies that focus on raising household incomes, promoting education and skills development, and encouraging asset accumulation are likely to have a meaningful impact on consumption patterns and living standards. Programs such as the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), Direct Benefit Transfers (DBT), educational support schemes, and initiatives aimed at easing access to credit for durable goods could play pivotal roles in this regard.

The regional disparities highlighted in the analysis make a strong case for adopting district-specific policies. Tailoring interventions to reflect the unique socio-economic conditions of different areas can help address consumption inequality and support more balanced regional development.

## **Final Argument and Way Forward**

In sum, this research contributes valuable new knowledge to the literature on household consumption in India, offering detailed, district-level insights based on primary data from an often under-researched state. By quantifying the influences of income, demographic variables, and asset ownership, the study provides evidence that can inform both scholarly debate and practical policymaking.

The findings reinforce the importance of evidence-based policy design, where welfare initiatives and development programs are shaped by rigorous empirical analysis and sensitive to the specific needs of different population segments. It is vital that future policies in Uttar Pradesh work not only to enhance incomes but also to improve educational outcomes and support asset formation, creating conditions for long-term improvements in household well-being.

Looking ahead, there is considerable scope for future work to deepen this analysis, particularly through the use of longitudinal data and more advanced econometric techniques. Such research would help capture how household consumption evolves over time in response to economic shifts and policy interventions. This study provides an initial foundation for that important ongoing inquiry.

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