

## Part I

# Notes on Expenditure Elasticities in Africa

## 1 Demand Analysis - Summary

The marketing and supply concerns have been ignored for the current stage of the study. The study of demand encompasses the household surveys in Tanzania and UK - inspecting the income elasticities of chosen commodities. The analysis focuses on Engel curves for the commodities and temporarily avoids the time-series analysis of incomes and prices.

## 2 Cross Section Analysis

If a population is observed for a sufficiently long time, then we can understand the effects of changing incomes, price variations on their choices. A significant degree of demand analysis from panel data comes out of the Slutsky equation approach (e.g. the well-known AIDS model - a particular version of the Rotterdam model). With no time-series data, on the other hand, one relies on price-variations within the cross-section and interpretations of commodity-elasticities (instead of effects of changing income on a monitored household).

By adding more parameters to the semi-logarithmic model, one runs the risk of overfitting. It is easy, in other words, to stress on transient parameters in a given cross-sectional snapshot. The calibration of a cost-function and imposition of general conditions on the demand equations can get around some of these problems.

## 3 A brief survey of household consumption models

### 3.1 Analysis by Prais-Houthakker

Houthakker attributes the popularity of Engel curves to the idea of equivalence scales (i.e. how different households achieve same level of living standard). Although Houthakker's Engel fitting would now be considered unashamedly pragmatic [6], his research was influential in popularising the use of income and expenditure elasticities in cross-sectional analyses [22].

The simplest Engel curves are set up with the Woking-Leser model hitherto used in the study:

$$w_i = \beta \cdot \log x_i + \alpha \quad (1)$$

Here, budget share total expenditure  $x = \sum p_i q_i$ , budget share  $w_i = p_i q_i / x$  while  $\alpha, \beta$  are regression coefficients.

A noticeable shortcoming with the Woking-Leser model is that no commodity specific information is used in the semi-logarithmic equation. The current study attempts to enhance this model with household and geographic parameters.

### 3.2 Cost Function and the Gorman Model

The Gorman approach considers a more general Engel curve:  $w_i = \sum_{r \in R} a_{ir}(p) \Phi_r(\ln(x))$  ( $R$  is a finite set and  $\Phi_r(\cdot)$  are general functions). For these to be consistent, one arrives at the cost function:  $\frac{\partial \ln c(u, p)}{\partial \ln p_i} = \sum_{r \in R} a_{ir}(p) \Phi_r\{\ln c(u, p)\}$  (where  $u$  = utility,  $p$  = price). Gorman derives following restrictions on  $\Phi_n(\cdot)$ :

$$w_i = a_i(p) + b_i(p) \ln x + d_i(p) \sum_{m=1}^M \gamma_m(p) (\ln x)^m \quad (2)$$

$$w_i = a_i(p) + b_i(p) \sum_{\sigma_m \in S_-} \mu_m(p) x^{\sigma_m} + d_i(p) \sum_{\sigma_m \in S_+}^M \theta_m(p) x^{\sigma_m} \quad (3)$$

Here,  $S$  is a finite set of elements  $\sigma_i$ ,  $S_-$  its negative elements and  $S_+$  positive ( $m = 1$  leads us back to Working-Leser form).  $\sum a_i(p) = 1$  and  $\sum b_i(p) = 0$ . Gorman model combines “demographic scaling” and “demographic translating”[21].

A significant amount of research has been done in scaling of the individual model (through the analysis of the so-called cost-of-children problem). Muellbauer has enhanced the model by considering every household a multiple of unit  $a^h$  (individual). One considers a multiplicative index  $m(a^h, u^h)$  such that:

$$c^h(u^h, p, a^h) = m(a^h, u^h) \cdot c(u^h, p) \quad (4)$$

Here,  $c(u^h, p)$  is the cost-function for every household. The budget share  $w_i^h$  is independent of  $a^h$ :

$$w_i^h = \frac{\ln c(u^h, p)}{\partial \ln p_i} \quad (5)$$

With derivatives with respect to  $a^h$ , Muellbauer further uses the above equation (and PIGLOG functions) to study the Barten’s model for cost-of-having-children [19].

### 3.3 Testing Spatial Variation

An analysis of expensive vs non-expensive food items was done by Prais and Houthakker (1955)[22]. This has been employed for LSMS data in the current study. To address spatial variations, Deaton use the following model for a cluster-based analysis:

$$\ln q_{Gic} = \alpha_G^0 + \beta_G^0 \ln x_{ic} + \gamma_G^0 \cdot z_{ic} + \sum_{H=1}^5 \theta_{GH} \ln p_{Hc} + (f_{Gc} + u_{Gic}^0) \quad (6)$$

$$\ln v_{Gic} = \alpha_G^1 + \beta_G^1 \ln x_{ic} + \gamma_G^1 \cdot z_{ic} + \sum_{H=1}^5 \psi_{GH} \ln p_{Hc} + u_{Gic}^1 \quad (7)$$

Here, quantity of good  $G$  consumed by cluster  $c$  is  $q_{Gic}$ , the associated unit-value is  $v_{Gic}$ , total expenditure is  $x_{Gic}$ , a vector of household demographic characteristics is  $z_{Gic}$ . Two error terms used consist of i) a cluster-specific random effect  $f_{Gc}$  along with the error  $u_{Gic}^0$  and ii) idiosyncratic error  $u_{Gic}^1$ . The computation of variance-covariance vectors  $u^0$  and  $u^1$  is used to derive cluster effects e.g. inter-cluster variances and covariances for the separable goods.

## 4 Current Analysis

### 4.1 Current Model

The form [6] currently used in the study is:

$$\ln q_i^h = \alpha_i + \beta \ln x^h + \gamma_i \ln n^h + u_i \quad (8)$$

Attempts to improve the regression were made by considering asset-ownership and number of young members in addition to total size of the household  $n^h$  (note that the prices are assumed constant during the snapshot of the recorded week). The clustering effect was not found significant for cheaper commodities. Also, as expected, the size of the household (i.e. number of family members) is a more significant indicator of consumption of commodities like sugar than for fruits or meat.

Further enhancements, with a Gorman form and weak separable tests are yet to follow.

## 4.2 Measuring Price

From LSMS data, prices are calculated by dividing expense by the quantity (this is the method used by Prais and Houthakker - which ignores price-indices) [22].

It is found inferred prices do vary quite a bit amongst different commodities. However, this variation is significantly lower for subsistence sugar (or beans) - the price for which don't vary as much as they do for meat. In a fashion similar to Prais - Houthakker [22](who visit the price variation of Tea to find that for a given income households of smaller size buy more expensive varieties of tea in the UK), the quality and quantity elasticities were derived based on classification of commodities according to price (inferred).

## 4.3 Income Elasticities of commodities

Prais-Houthakker model the combination of quantity vs quality as :  $dq_i = p_i \delta p_i + k_i \delta k_i$  (change in quality - indicated by price and change in quantity indicated by quantity). This leads to :

$$\frac{x}{q_i} \frac{\partial q_i}{\partial x} = \frac{x}{k_i} \frac{\partial k_i}{\partial x} + \frac{x}{p_i} \frac{\partial p_i}{\partial x} \quad (9)$$

Prais-Houthakker derive quantity elasticity as difference between expenditure elasticity and the quality elasticity. The quality-adjustment to the quantity can provide more insight in the factors affecting expensive consumption ([4],[7]). Analyzing the tea-consumption in the UK, for example, Prais-Houthakker find small-size families spending proportionately higher on expensive tea varieties. The quality elasticities obtained in a similar fashion for alcohol, fruits and meat in Tanzania, show significant differences in quality elasticities across income groups.

## 5 Future Work

The current study notes elasticity differences between expensive and less-expensive varieties - leaving us with quality-elasticities. However, at this point, a correlation of these elasticities with perceived conspicuous consumption, although methodical, is a rather subjective exercise. This is intended to be improved with a more robust utility-theory based approach (research by Ireland[14]).

Towards that goal, I intend to develop methods to test separability in the context of conspicuous consumption - instead of assuming weak-separability of different commodity groups. The index prices obtained for these commodity groups are planned to be used for better estimates on expenditure elasticities.

## 6 Poor Economics - a discussion of development economics issues [2]

There is evidence for "flight to quality" amongst poor[16]. Deaton notes a characteristic drop in consumption of food in developing countries (relative to other commodities)[8]. There are local factors that tend to stand out in developing countries - e.g. funeral expenditures in Swaziland. There is ample evidence to show that other commodities compete with welfare-related commodities (e.g. healthy food or financial investments). Banerjee et al. do not attribute this to temptation - but to lack of health insurance and sufficient cash (letting medicines and maintenance of work become more important than children's education or healthy food).

It is also worth noting that often times consumption on products/services that provide welfare could be less just because the quality of these services is extremely low in developing countries (e.g. education provided by the public sector).

In observed social changes, clustering based on religion or social groups is found significant in consumer behaviour (e.g. In India, muslims are influenced more by other muslims and hindus in the same locality [p118]).

The theory of impatience, despite its appeal, makes less sense for the poor and is considered irrelevant for the current study - since the evidence shows that poor tend to make choices as rational as their richer counterparts. Moderate success of microfinance (despite concerns with credit monitoring and administration)

offers one such instance. Against the intuition, the poor seem to have sufficient hunger for saving methods and go the extra mile to save for future (even though saving is far more stressful for them).

However, one cannot get carried away with the opportunities that poverty can create. Banerjee et al. also note that it is the lack of regular employment that makes the poor more likely entrepreneurs (even though their success rate is much lower) - not the psychological “drive” as many would perceive.

## Part II

# A summary of studies on conspicuous consumption

## 7 Visibility, Status and Congestion

The term “conspicuous consumption” traces its roots back to the treatise “Theory of the Leisure Class” authored by Thorstein Veblen in 1899. At about the same time when Marx endorsed the view of all commodities as products of labour (diamonds and vegetables alike), Veblen sought to explore the psychological basis for consumption among the economic classes. His view of conspicuous consumption may at times appear critical of the “bourgeois” wastefulness<sup>1</sup> - but Veblen doesn’t base himself on equivalence of labour for exchange of commodities. He argues that the historical roots of insignia and exploits have survived in culture from more primitive hunter-gatherer and agrarian societies - and a certain symbolism is inherent in all exchange of goods and services (including devotion and education<sup>2</sup>).

Even when the ideas of conspicuous consumption have been revived in works of Ireland[14] and Arrow, Dasgupta [1], the literature has relied on what is considered wasteful - modeling conspicuous consumption as the difference between social welfare and market equilibrium. Of particular interest is a model of status-signalling provided by Ireland[14] where consumers attempt to maximise a combined utility of visible (public) and non-visible (private) consumption). The model is of remarkable simplicity but calibrating it involves a sensitivity-parameter of how much visible consumption matters to the consumers. Given the nature of status competitions in society, such a calibration is hardly trivial. Heffetz[12] surveys a few hundreds of respondents to find out - quite literally - just how visible every item is for a typical consumer [14].

A survey quantifies a lot of complex interactions in what constitutes status competitions in a society. A luxury item - for example - needs to be marketed as a luxury for it to both impart visible signals to others and to improve self-perception of the buyer. In Veblen’s original framework, for a product to indicate status it must be both rare and expensive (thus serve as an exploit). That a watch is more noticeable than an insurance policy (and associated with higher income) may not be relevant in this framework. Moreover, whether a poor person buying a cheap watch and a richer person buying a watch that is far more expensive (and probably subject to import restrictions) are both instances of conspicuous consumption or not depends on the context that the observer chooses. Cheap watches may or may not constitute conspicuous consumption - depending on context of the social welfare function. The wide variety of criteria in conspicuous consumption seem to indicate this ambiguity (See Table2).

The choice of visible and non-visible goods matters more in developing markets where a culture of mass consumerism is only nascent and status competitions aren’t driven by economic inequalities alone (whereas in developed markets, firms are quick to turn a conspicuous item into a higher-priced commodity). The context of exploits identified by Veblen is however still relevant in the developing markets<sup>3</sup>. In its original sense, conspicuous consumption is an ecological concern and plays within the realms of sociology<sup>4</sup>. The research

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<sup>1</sup>“Throughout the entire evolution of conspicuous expenditure, whether of goods or of services or human life, runs the obvious implication that in order to effectually mend the consumer’s good fame it must be an expenditure of superfluities. In order to be reputable it must be wasteful.”[23]

<sup>2</sup>“The adoption of the cap and gown is one of the striking atavistic features of modern college life, and at the same time it marks the fact that these colleges have definitely become leisure-class establishments, either in actual achievement or in aspiration”.[23]

<sup>3</sup>“No class of society, not even the most abjectly poor, forgoes all customary conspicuous consumption[23].

<sup>4</sup>“Increased mobility of the members has also added to the facility with which a “social confirmation” can be attained within the class.”[23]

on conspicuous consumption in the developing world has often found that the consumption of visible items (for whatever criterion selected) differs significantly between social classes <sup>5</sup>.

In both the developed and developing worlds, conspicuous consumption is driven by scarcity and competition ([13, 9]). If status were imparted by inherited wealth alone, there would be little conspicuous consumption as the consumers would be quick to realise the futility of buying trinkets. In the developed world, where markets have evolved to address the demands of the population, the positional pressures are readily addressed by market forces - thus a preference for visible goods indicates a higher price on them and a higher consumption on visible products always “signals” a higher status (a product with a higher status symbol would automatically carry a higher price). In underdeveloped markets, where information asymmetries are abound, the higher signalling (visible component of combined utility) would not necessarily be achieved with higher spending on visible goods - and other factors start to matter in the combined utility function as is suggested by data from various cross-section expenditure surveys.

## 8 Visible consumption in the developing world

A rural setting in a developing country more often evokes images of immiserization than competitions for positional consumption. Still, the visual splurge offered by the new economic developments offers new venues of visible consumption. The basket of visible consumption has expanded, a new spirit of individual consumerism has replaced the rural contractual arrangements that were less influenced under nationalist governments. Looking at Tanzania, the spending on marriage and funerals seems high, but it now competes with higher spending on consumer electronics and electricity. The current study views the cross-sectional expenditure data from Tanzania from a visible consumption perspective.

The presence of conspicuous consumption in developing countries has been a recent topic of interest ([18],[15]). Table 2 summarizes the data and methodologies for some of the studies. The studies have been based on a visible basket classified first by Heffetz - where the consumer basket constituents were sorted by a visibility measure based on a survey of 480 respondents. Conducted in US, the respondents were asked how long it took them to notice the consumption for commodities in the US CEX categories (listed in Table 1)<sup>6</sup>. The visibility index computed from survey responses was found to have a significant predictive power for total expenditure elasticity.<sup>7</sup> . Robustness tests (regressions for different quantiles and across multiple demographic categories) reported an all through significance of the Vindex regressor.

A similar survey of visibility of commodities was not conducted by many other studies conducted on the developed world works[12] . Many studies have relied on the basket defined by Charles et al<sup>10</sup>[3]. The definition of visible consumption is often adjusted in these studies depending on the socio-cultural context (See Table 2). Omori-Smith ignore all visible consumption categories from the Charles et al study except

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<sup>5</sup>Kaus finds that black ethnic groups spend more on visible commodities than the white ethnic population in South Africa - arguing that status is gained through means other than consumption[17]. Khamis et al find that the Muslims spend less on visible consumption items when compared to Hindus of same economic standing[18].

<sup>6</sup>The exact question was - “Imagine that you meet a new person who lives in a household similar to yours. Imagine that their household is not different from other similar households, except that they like to, and do, spend more than average on [jewelry and watches]. Would you notice this about them, and if so, for how long would you have to have known them, to notice it? Would you notice it almost immediately upon meeting them for the first time, a short while after, a while after, only a long while after, or never?” [12]. Responses were coded from 1 (almost immediately) to 5 (never). The question was repeated for each expenditure category (randomly ordered). A normalized measure was then used as the visibility index.

<sup>7</sup>The utility function is modeled as a combination of a private consumption function and an observable consumption function. Considering the Cobb-Douglas utility function  $f(v, w) = \beta_v \cdot f(v, w) + \beta_w \ln(w)$  over constraint  $y = v + w$  where  $y$  is the budget constraint and  $(v, w)$  are visible and non-visible good quantities respectively. Instead of the standard Engle curve model :  $v = \frac{\beta}{1+\beta}y$  and  $w = \frac{1}{1+\beta}y$  (where  $\beta = \frac{\beta_v}{\beta_w}$ ), the authors use the model provided by Ireland et al ([14]). Using an individual’s sensitivity to social status signals in the model, they use a utility function  $U = (1 - a)f(v, w) + af(\hat{v}, \hat{w})$  (where  $\hat{v}, \hat{w}$  are societies’ view of the consumption and  $a > 0$ ). Solving for a separating equilibrium, this results in  $y = \frac{1+\beta}{a+\beta} + Cv^{-\frac{\beta}{a}}$  ( $a > 0$ ) where  $C = \frac{a}{a+\beta}(\frac{\beta}{1+\beta})^{\frac{\beta}{a}}b^{\frac{a+\beta}{a}}$  ( $C$  is derived by considering the utility maximization at lowest income level  $b$  as the boundary condition for the utility maximization problem). Elasticities in this model are  $e_v = \frac{dv}{dy} \cdot \frac{y}{v} = a((1 + \beta)\frac{v}{y} - \beta)^{-1}$ .

<sup>10</sup>Charles et al themselves ignore housing expenses - despite its clear visibility- because of the known housing differences in the US between black and white social groups[3].

Tobacco products like cigarettes, cigars, and pipe tobacco  
 The purchase of new and used motor vehicles such as cars, trucks and vans  
 Clothing and shoes, not including underwear, undergarments and nightwear  
 Home furnishings and household items, like furniture, appliances, tools and linen  
 Jewelry and watches  
 Computers, games, TVs, video, audio, musical and sports equipments, tapes, CDs  
 Dining out at restaurants, drive-throughs, etc, excluding alcohol including food at school  
 Alcoholic beverages for home use  
 Barbershops, beauty parlors, hair dressers, health clubs, etc.  
 Alcoholic beverages at restaurants, bars, cafeterias, cafes, etc.  
 Cable TV, pets and veterinarians, sports, country clubs, movies and concerts  
 Books, including school books, newspapers and magazines, toys, games and hobbies  
 Education, from nursery to college, like tuition and other school expenses  
 Food and nonalcoholic beverages at grocery, specialty, and convenience stores  
 Rent, or mortgage, or purchase, of their housing  
 Mobile phone services  
 Airline fares for out-of-town trips  
 Lodging away from home on trips and housing for someone away at school  
 Public transportation, both local and long distance, like buses and trains  
 Vehicle maintenance, mechanical and electrical repair and replacement  
 Gasoline and diesel fuel for motor vehicles  
 Medical care, including health insurance, drugs, dentists, doctors, hospitals etc.  
 Contributions to churches or other religious organizations and other charities  
 Laundry and dry cleaning  
 Home utilities such as electricity, gas, and water; garbage collection  
 Home telephone services, not including mobile phones  
 Legal fees, accounting fees, and occupational expenses  
 Vehicle insurance, like insurance for cars, trucks, and vans  
 Homeowner's insurance, fire insurance, and property insuranceools and licenses  
 Life insurance, endowment, annuities, and other death benefits; insurance  
 Underwear, undergarments, nightwear, and sleeping garments

Table 1: Consumption Categories in CEX ordered by visibility rankings

Authors	Estimation Procedure	Data Sources	Basket constituents
Kaus[17]	Cross-sectional 2SLS with demographic and time variables	IES(expenditure survey) - visible categories through vindex	Baskets from Charles et al - selecting personal care, cars, jewelry and apparel (including footwear) products
Charles et al[3]	Cross-sectional 2SLS with demographic and time variables	CEX(expenditure survey) - visible categories same through vindex. Despite its visibility, housing has been excluded from the list.	Clothing/Jewelry/Shoes (029) Clothing Services (030) Jewelry and Watches (031) Personal Care (032) Barbershops, Beauty Parlors, and Health Clubs (033) Motor Vehicles (052) Repair, Leasing, Greasing, Washing, Parking, Storage, and Rental Services(054) Reduction of Principal on Vehicle Loan (096) Tires, Tubes, Accessories, and Other Parts (053)
Friehe, Mechtel[10]	Regression with demographic and time controls	EVS (expenditure survey) - visible categories through vindex. Items that are subsidized e.g. housing, pharmaceuticals or those with no significant visibility are ignored.	Basket from Charles et al, Heffetz (Table 1)
Khamis, Prakash, Siddique[18]	Cross-sectional 2SLS with demographic and time variables	2005 Indian Human Development Survey (IHDS) The commodities were sorted based on a visibility survey conducted in an Indian university.	Personal Transport Footwear Vacations Furniture Social Functions Repairs Clothing Jewelry Recreation Goods
Omori, Smith[20]	Regression with demographic and time controls	US CEX (expenditure survey)	Clothing (including shoes) from the US CEX categories (Table 1)
Heffetz[12]	Visibility Elasticities estimated through weighted/kernel regression with a Visibility Index (Vindex)	Vindex (surveyed), US CEX (expenditure survey)	Survey of visibility of commodities (See Table 1)
Jaikumar, Sarin[15]	2SLS with Gini-Index as control variable and household assets as instrument for permanent income control (total expenditure) <sup>8</sup>	2005 Indian Human Development Survey (IHDS) <sup>9</sup>	Basket identified by Khamis et al

Table 2: Criteria of Conspicuous Consumption in surveyed literature

that of clothing (including shoes)[20]. Friehe-Mechtel used several definitions of the visibility basket to study the robustness of their results[10]. A study of the consumption in South Africa by Kaus chose a basket of products as close as possible to that in the Charles et al study[17].

The need for a survey to measure visibility of items in the basket is however necessary when conducting similar studies in developing world countries<sup>11</sup>. Visibility is a socio-cultural judgment - and the visibility basket from the developed world cannot be translated as such into disparate geographies and cultural environments of the developing world. One can arrive at wrong conclusions on visible consumption for a consumer group if a visibility basket was chosen from a different cultural environment. For example, hair-products may be associated with a higher visibility (and promise) in the developed world but in the developing world their purpose could be just utilitarian (poor quality of production, cultural factors etc.). Attributing lower visible consumption based on a low consumption of hair-products would thus be erroneous.

Another practical problem arises in the developing world because of the predominant use of recall method in expenditure survey. A relevant anomaly is the Deaton Paxson paradox([5]) - i.e. the observed decrease in food expenditure per head as household size rises (with constant outlay per head). The likely cause for the paradox is presence of errors correlated with household size in the data that results in possible overestimation of the consumption of recalled items[11]. Caution must therefore be taken (or a correction applied) when mixing expenditures from recall and diary methods.

The visibility elasticities may not be compared across countries without above considerations but a comparison within the country can provide insights into the effect of certain demographic factors on visible consumption. This has been the central theme for most of the studies surveyed in this note. More than to improve the measurement of visibility, the studies are interested in identifying the demographic parameters that explain the log-expenditure of visibility basket as is. The general regression equation for such a study is the following:

$$\ln(vis_i) = \beta_0 + \beta_1 \cdot Dem_i + \beta_2 \cdot \ln(pInc_i) + \epsilon \quad (10)$$

Here  $vis_i$  is the total visible consumption of the household  $i$  (accumulated over the chosen visibility basket),  $Dem_i$  is a vector of demographic indicators under consideration and  $pInc_i$  is the permanent income - proxied by total expenditure. Households with higher total expenditure are far more likely to be those with higher visible expenditure. Thus, total expenditure (on the right side of the equation 10) makes it an endogenous variable for the dependent variable :  $\ln(vis_i)$ . A different approach is taken by Jaikumar et al who use weights in the basket rather than visible expenditure levels - so that visible expenditure is not subject to the endogeneity problem that arises due to total expenditure being on the right hand side and visible expenditure on left hand side of the equation[15] (The proportion of visible expenditure with respect to the total expenditure could be the same for those with higher total expenditure and lower total expenditure). However, since data on income is often poor or sparse in the developing countries, total expenditure turns out to be the most frequent choice for a proxy of permanent income ( $pInc_i$  is a key control parameter for the analysis of visible consumption). In most of the studies, the said endogeneity of total expenditure is resolved by a choice of appropriate instruments - e.g. income, cubic-income, postive-income dummies or occupation codes. These instruments identified by Charles et al.[3] are reported to be quite strong in the studies surveyed as part of this note (Sargan and Wu-Hausman tests confirm endogeneity and the effectiveness of chosen instruments).

## 9 LSMS 2010 data on Tanzania

Tanzania has been the first country to be surveyed as part of this study. With recent economic growth and a history of nationalization, the country provides a much desired snapshot of the consumer world of developing

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<sup>11</sup>Khamis et al[18] ask two key questions to respondents in an online survey conducted in India. First asked them how closely they needed to interact with their neighbour (with similar demographic characteristics) in order to observe above average spending for a list of items (Options were -'1: No Interaction', '2: Occasional Interaction', '3: Friend', '4: Close Friend' or '5: No matter how much one Interacts'). An item where >20% respondents report 1 or 2 was considered a visible item. A second question asked them what they'll expect of the consumption of an item after a sudden 20 percent rise in their neighbor's income '1: Fall', '2: Stay the same', '3: Increase by less than 20 percent', '4: Increase by 20 percent' or '5: Increase by more than 20 percent'. The list of items in these questions attempted to match the consumption categories in the IHDS. An item is associated with higher income if more than 20% of respondents reported 2,3,4 or 5.



Visible Commodity Code	Description
214	Other personal products (shampoo, razor, cosmetics etc.)
301	Carpets, rugs
313	Marriage Ceremony
314	Funeral
219	Motor vehicle service, repair, or parts

Table 3: Visible commodities in LSMS data

Mean Household size	5.27
Mean age of household head	46.36
Average number of rooms per household	3.33
Percentage with household head educated secondary or higher	16.14
Mean Total Expenditure	2471122
Percentage Employed in Agriculture	47.76
Total Number of Households	2979

Table 4: Descriptive statistics for LSMS Tanzania 2010

sub-Saharan Africa. The data chosen for the preliminary analysis is from the Living Standard Measurement Study (LSMS) conducted by the World Bank. LSMS includes expenditure microdata from about 10,000 households - with many of the expenditure categories of potential visible value. With no verifiable measure of visibility, all expenditure not related to food and utilities is evaluated for potential visibility. These chosen categories from LSMS are listed in Table 3 - these are meant to include the categories identified by Khamis et al as far as possible[18].

## 9.1 Preparing the Data

The preparation of the data involved normalizing the data for total expenditures by combining expenditure on items collected through recall and diary methods. The summary statistics are shown in Table 4.

Obtaining visible consumption elasticities (using equation 10) from recall method while computing total expenditure (food etc.) based on diary method can result in measurement errors discussed in the previous section (it is argued that larger families are more likely to underestimate their purchases when recalling). When the weekly data is mixed with yearly data - the extrapolation of past week's consumption can further overestimate food costs<sup>12</sup>.

The income spectrum is heavily skewed in the developing world. In Tanzania, only around 30% of heads of the recorded households have any reported income. Having two jobs and owning multiple self-owned (small) businesses is not uncommon and the mode of payment is often not in cash. The amount of income recorded for the household is thus frequently based on the person's estimate of the item provided as income. All of these can make the income estimates noisy at best. The income levels themselves seem poorly correlated with expenditure levels. One possible way to measure this noise is by observing the variance of income in the same region<sup>13</sup>. Given the sparsity of available income data, however, instruments for age and occupation codes were chosen for the current study.

<sup>12</sup>To test the significance of this issue, one can test whether the surveyed households are equally likely to overspend in the recorded week

<sup>13</sup>If there are  $X$  individuals with  $n_i(i \in X)$  sources of income each, then it is safe to assume that workers in the same region and same employment-type have reasonably similar incomes. The variance in incomes recorded for the same local group can give an estimate of how noisy the data is due to self-reporting.

## 10 Methods to measure visible consumption

### 10.1 Visibility Methods

The direct way of measuring visibility is to find an evidence of visibility in the commodities. Most studies have relied on their own visibility surveys. In absence of such a survey, the public media can serve as a proxy - a crude way would be to survey the advertisements of items in general interest magazines. Total magazine area spent on a class of commodities can help select the visible commodities<sup>14</sup>.

### 10.2 Threshold Methods

A comparison of log-expenditure on a commodity versus the log-total-expenditure shows difference among higher and lower consumer percentiles of a particular commodity. The differences between amounts spent by the lowest and higher percentile of consumers of a commodity are expected to be higher when a good is a status-good than when the good is of common of utility. The illustrations show non-zero log-level expenditure on a few commodities when the lower (let's say  $\theta$ ) percentile of the consumption of the commodity is ignored. Ignoring the bottom  $\theta$  percentile of the consumption of a visible commodity is equivalent to treating the bottom  $\theta$  percentile expenditure as non-visible consumption. The plots of log-expenditures are shown with rising  $\theta$  (starting with the lowest percentile  $\theta$  that corresponds to lowest non-zero log-level of consumption of the commodity).

For an inferior good, one expects that the consumers from lower and higher quantiles of total expenditure (x-axis) would consume similar amounts of the good (y-axis). For luxury goods, the consumers spending higher expenditure on good would lean towards consumers with higher total expenditure. This does not indicate signaling in any way - but tests only whether a commodity is consumed uniformly amongst those with lower and higher total expenditure outlays (this is more likely to be a measure of congestion than of visibility). Choosing different thresholds ( $\theta$ ) provides a control on the degree to which a certain commodity can be included in our conspicuous consumption basket. Instead of asking whether marriage spending is visible or not - for example - the test looks at the expenditure on marriage if only the richer consumers could afford a significant expenditure on marriage (varying the amount spent on marriage).

In the data from Tanzania, only top 56% spend of consumers show spending on rice. Electricity appears to be a luxury when only top 22 % of consumers spend on it. This may not necessarily suggest that a higher consumption of electricity indicates status but a higher  $\theta$  for electricity certainly indicates its physical scarcity (to use the terminology of Hirsch [13]) - and thus a possible congestion.

Since not all scarce objects can be indicative of status we either need some judgment to decide which products may indicate status signaling or observe it directly in a society. A survey accomplishes this by ranking all products. It must also be noted that visibility is hardly orthogonal to all other expenditure categories and the usual arguments of additive utilities cannot hold for visible consumption (If let's say rice and walnut are ranked differently in their perception of visibility in the survey then one can no longer talk about food as an additive component of the final utility). Detailed microdata becomes a necessity for fitting a utility function with a visible component ([1, 12]).

### 10.3 Possible methods for measuring congestion

The threshold-based method above offers no evidence of visibility of chosen goods. Congestion - a related phenomenon - is subject to demand and supply for a particular commodity and can be measured as the basis for visible consumption. If we were to consider food, a limited supply and overpopulation can cause congestion - for entertainment, censorship and introduction of internet can create congestion and for housing - new communities and overpopulation can cause congestion. As such, congestion is commodity-specific and thus a focus on selected items may be the only way to test whether there is disproportionate consumer spending on the commodity. The data from Tanzania so far only seems to point that availability of services in urban and rural area could be serving as status signals.

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<sup>14</sup>If the magazines are indeed food magazines - then the ad-occurences are biased - but a general purpose magazine that caters to all sections of society and has a subject matter sufficiently orthogonal to all consumption items considered, can provide a reasonable proxy of visibility.

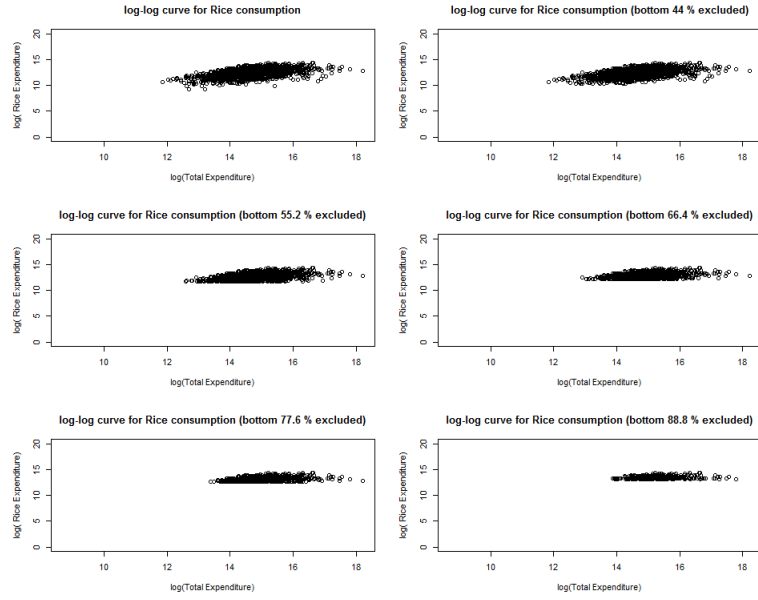


Figure 1: Percentiles of nonzero consumption of rice

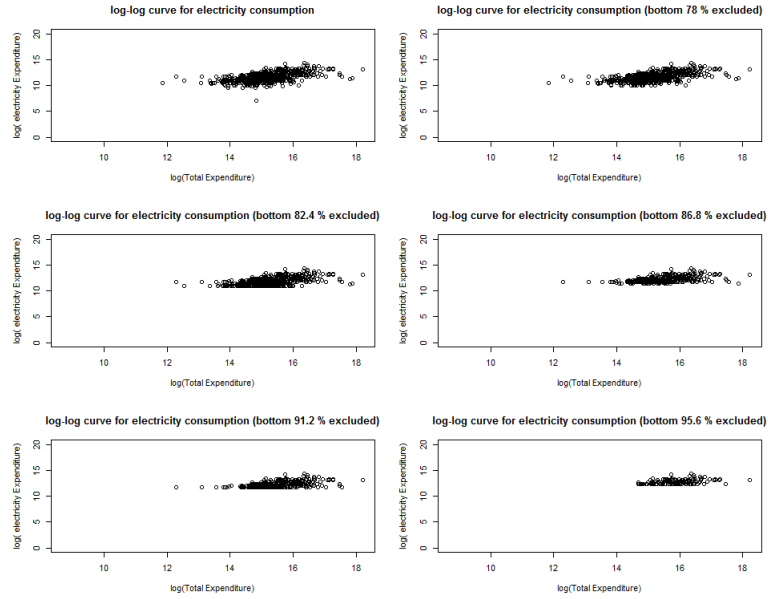


Figure 2: Percentiles of nonzero consumption of electricity

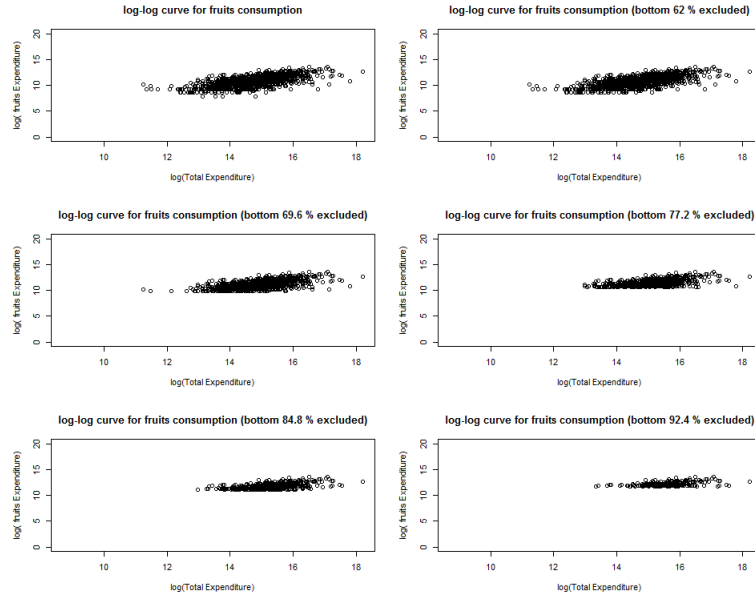


Figure 3: Percentiles of nonzero consumption of fruits

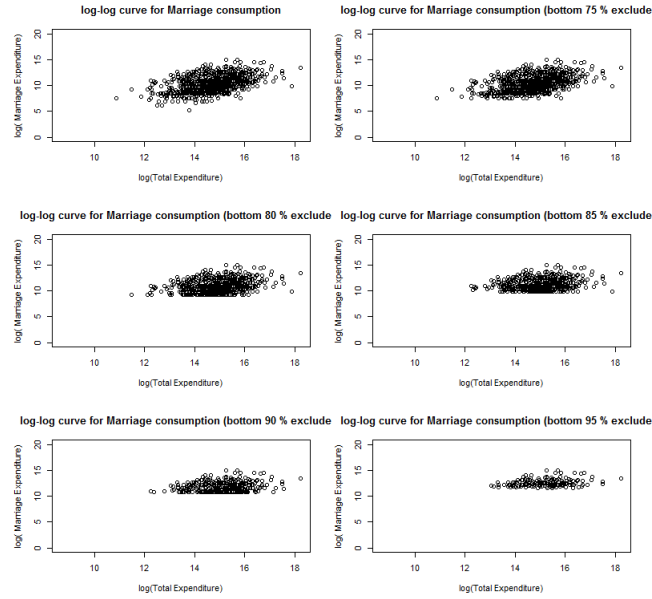


Figure 4: Percentiles of expenditure on marriage

## 10.4 Claims Tested

### 10.4.1 Effect of Education Level

One of the claims to be evaluated on the LSMS data is whether education has a significant effect on visible consumption. A data-quality issue in exploring this claim is the presence of NAs in the recorded levels-of-education for nearly 30% of the individuals.

### 10.4.2 Effect of Immigration

With a significant migration from rural areas, one of the claims to be tested is whether those resident in the community spend less on visible consumption. The control parameter years-of-residence-in-community was not found to be significant for  $\ln(vis_i)$ . Age of the household is in fact slightly more significant indicator of visible consumption. Household-size has a higher significance than both years-of-residence-in-community and age.

### 10.4.3 Urbanization Effects

One of the surprising aspects of the data is that urbanization doesn't have much effect on visible consumption. This could be because urban-rural differences in Tanzania are not as extreme -most of the country is sparsely populated with little access to basic services and it is likely that the administrative classifications of rural-urban areas do not reflect the consumer markets so well.

To reflect the market-accessibility better, a dummy for accessible markets was created using the distance from the surveyed household location to the closest daily market. One finds the market-accessibility thus calculated is not a significant factor of visible consumption elasticities either. A possible next step is using area dummies to detect any regional disparities in the visible consumption across the country.

### 10.4.4 Population density

Population density is a crude measure for crowding in the cities. A urban/rural dummy can be created by classifying districts based on their population densities. This dummy does have significance - which may imply that those in urban areas spend more on visible consumption (possibly because rural areas don't have the means) - but this needs to be instrumented better.

### 10.4.5 Services as Visible Consumption

One of the interesting observations in the Vindex survey (Heffetz[12]) is the clustering of services and products. It is found that services tend to be less "visible" in the Western consumer world. The clustering might not be as clear-cut in the developing world - where social stratifications are severe and many services are contractual (non-monetary). The socio-cultural barriers might have an effect through access to services.

Towards that claim, English education as a control parameter is found slightly significant in the regression with  $\ln(vis_i)$  as the dependent variable. Those who identify themselves as English speakers tend to spend less on visible consumption. With t-values of  $\sim 1.5$ , this effect is not extremely significant - but it points to i) fulfilment of status needs through services (education in this case) and ii) the need to include context-specific services in the visibility basket.

## Part III

## Questions

1. How to incorporate weights in the surveyed tables?
2. How to account for combination of recall + diary?
3. Is kernel regression worth the effort?

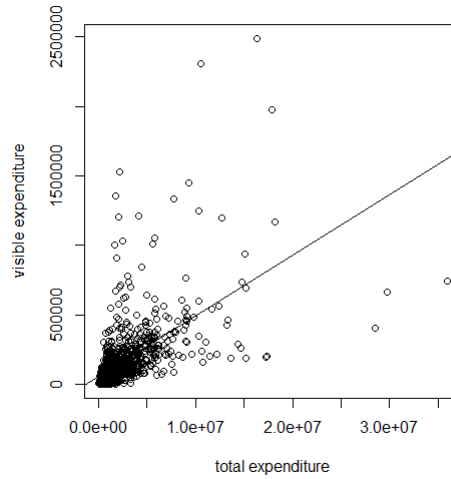


Figure 5: Visible Expenditure vs Total Expenditure for LSMS 2010

4. An evidence for the phenomenon of visibility could be provided with the data (linguistic or ad-related) in the local newspapers or other media. This could serve as a proxy similar to the visibility index used by Heffetz (even though it provides data on commodity classes with a much finer granularity than what can be provided by viewing linguistic data). One cannot still relieve the assumption that access to newspapers is limited to a higher economic strata. Is this a direction worth pursuing?
5. How to do supply side analysis now e.g. how can I find out if the school is expensive or not - is consumer data the only way to analyse this?
6. There are differences between considering only head of household and the whole household - what's the argument here?
7. There is no survey - any way to get around that?

A- Threshold.

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