

Projection Using a Flexible Demand System for India

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This paper attempts to utilize two variants of a flexible demand system for making demand projections of six broad commodity groups, separately for rural and urban areas of India. The popular almost ideal demand system is used for this purpose. Demand projections are made under two alternative income growth scenarios for the immediate post-sample period 1988-89 to 1992-93. The two model variants are found to forecast the demands differently, particularly in rural areas. In continuation of the historical trend, the models predict a sizeable decline in the per capita monthly consumption of cereals in urban India. This may signify shifts in consumer tastes and preferences away from cereals in urban areas, thereby raising serious nutritional concerns.

1 Introduction

Demand projections is an important input to any planning process. In India, systematic collection of consumer expenditure data by National Sample Survey Organisation (NSSO) has started with the planning process itself. Availability of abundant data from NSSO has prompted many researchers to estimate Engel elasticities and use them for demand projections assuming stable income distributions. Later studies have recognized the role of prices in determining demand patterns which lead to modification of Engel curves into partial demand relationship.^{1/} But, it has soon become clear that both Engel curves and partial demand relations fail to satisfy consistency requirements and cannot be integrated with general equilibrium models.

Important advances in consumer theory in the form of specification and estimation of utility consistent complete demand systems has opened-up a new era in the analysis of consumer expenditure data and its use in plan formulations. Until recently, the empirical models used were restrictive in their ability to capture cross-price responses, defeating the very purpose of estimating a complete demand model e.g., Stone's linear expenditure system, Houthakker's direct and indirect