

CHAPTER-I

INTRODUCTION

1.1 Background

Nepal is a Himalayan country wedged between two emerging economic powers in Asia, China in the north and India in the east, the west and south with an open border. Nepal is least developed, land-locked, and economically weak nation of enormous ecological, cultural and ethnic diversity. Nepal is developing country with agriculture based economy and very low standard of living. NLSS, Volume-II (2010/2011) states that, at national level 28 percent of income of household comes from agriculture, 37 percent from non-farm enterprises, 17 percent from remittance and 16 percent from own housing consumption.

Economics Survey of Nepal reports that in fiscal year 2011/12 the percentage of gross consumption/GDP of Nepal was 90.0. It estimates that Nepal's economic growth rate for 2011/12 was 3.5 percent. The major reason for such a decline in growth rate is due to sluggishness in the economic activities of non-agriculture sector other causes may be labor issues, reduced electricity supply, decrease in expansion of bank credit and dawdling remittance flow adversely affected economics activities of these sectors.

NLSS 2010/11 reports that there has been changed in the consumption level of the people of Nepal over the years. It was NRs.6802 during 1995/96, by 2010/11 it is increased to NRs. 34829. At national level, nominal per capita consumption increased more than 5 times in the past 15 years (between 1995/96 and 2010/11). Similarly, the nominal household consumption for Nepal is estimated NRs. 170735 in the year 2010/11. The richest twenty percentage of population consumes about four fold (NRs.304,616 per household) of what the poorest 20 percent of the population consumes (NRs. 81,714 per household). The shares of composition of expenditure on different category are different in urban and rural

area. On average 62 percent of household consumption is spent on food expenditure in the country. Share of housing consumption is 11 percent that of education in 5 percent and rest 22 percent is accounted for by the other non-food items. The report reveals that urban household has a lower share in food consumption expenses than that of rural household. The urban HH spend 46 percent on food, and especially in Kathmandu valley urban areas such share is lowest (36 percent). Not surprisingly, urban household tends to spend more on house rental and education relative to their rural counterparts. On average 65.6 percent of household consumption is spent on food expenditure by the rural area. Share of housing consumption is 9 percent and rest 25.4 percent on non-food items. (CBS, 2011)

About the adequacy of consumption, in overall 16 percent of the respondents think that food consumption in their household is "less than adequate" (or inadequate), while 82 percent say it is "just adequate" and the remaining 2 percent answer "more than adequate". The percentage of household reporting "inadequacy" food consumption is higher in rural areas than in urban areas. Not surprisingly, the percentage of households reporting inadequacy decreases sharply with the household consumption quintiles. Similarly in Nepal 22 percent of respondents think that their housing facility is inadequate and 77 percent say that the facility is just adequate. (CBS, 2011)

From previous research work it was found that there is difference in consumption pattern in urban and rural area. It was found that regression coefficient, expenditure elasticity and percentage of expenditure of food grain higher for rural areas as compare to urban ones. Similarly, the expenditure elasticity in rural was 1.49 to 2.09 and in urban 1.41 to 2.25. Similarly in different research work it was found that income has significant effect on consumption expenditure. It was also found that MPC was positive, but less than one ($MPC < 1$). Similarly APC falls as income rises. Autonomous consumption is found decreasing as income decreases MPC was found 0.559, 0.839 and 0.862 for large, medium and small household respectively. Even Acharya (1998) in his paper reported MPC as 0.80. He concluded

that MPC of medium farm group is greater than that of large farm group. Not surprisingly MPC of poor is greater and vice versa. (CBS, 2011)

The rural and urban area like the same two face of same coin. Majority of population of developing countries lives in rural area and over and above a considerable proportion of their urban population lives in small towns. The development of market town is essential for the strengthening rural regions development. Urban population in Nepal has witnessed a growth of 40.12 percent over the last decade (2001-2011). According to the preliminary results of National Population Census 2011 published by the Central Bureau of Statistics, Urban population that was 3.22 million in 2001 reached 4.52 million in 2011. The present urban population accounts for 17 percent of the total population of 26.6 million in Nepal. The Urban population has been registering an annual growth rate of 3.38 percent. The population density in the urban regions has reached 1380 people per square kilometer. (CBS, 2011)

With the growth of urbanization it is also necessary to know the change in consumption expenditure pattern. Even, rural area also has better resource, utilization which changes the consumption pattern in different categories. So, here in the study, the consumption pattern of rural and urban area is going to find out.

1.2 Statement of the Problem

Consumption function shows the functional relationship between consumption expenditure and the level of income. It is mainly explained by the level of income. There are plenty of literatures devoted to the consumption function. The widely discussed theories of consumption are 'Absolute Income Hypothesis', 'Permanent Income Hypothesis' and 'Life Cycle Hypothesis'. J. M. Keynes, James Duesenberry, Milton Friedman and Modigliani and other economists put forward their distinctly recognized theories in different ways. Various empirical studies which have been done so far, have devoted their study in focusing the consumption-income relationship of urban area. It is therefore, there is necessity to test the theoretical proposition of the consumption-income relationship of specifically the rural area. In Nepal, the government agencies and

academician have conducted a few empirical studies on this subject. But they cover only the limited area and they are mostly urban based.

The present study is intended to fit the consumption function of rural and urban Pokhara. The objective of the study is to find the nature and patter of consumption and compare the pattern between rural and urban Pokhara. It is expected that this analysis will highlight the consumption behavior of the rural and urban people. The study fills the gap of information about the consumption pattern of urban and rural households of Pokhara. Therefore, in the study, the following issues have been addressed:

- What is the status of consumption expenditure of various categories among the rural and urban households of Pokhara?
- Is there any difference in consumption pattern of those households?
- Is there any significant effect of income, household size and educational level on consumption?
- Is there any difference in the consumption pattern in rural and urban area?
- Does the remittance effects consumption in rural and urban Pokhara?

1.3 Objective of the Study

The main objective of the study is to determine the nature and pattern of consumption in the study area and to compare the pattern between rural and urban Pokhara. However, the specific objectives are:

- To estimate and test consumption function for Urban and Rural setting of Pokhara.
- To compare the consumption pattern of rural and urban settlement of the study area.
- To examine the factors determining consumption expenditure.

1.4 Hypotheses

In connection to study variables, the following hypotheses have been set to examine their relationship.

Hypothesis 1

H₀ - There is no difference in the consumption pattern between urban and rural Pokhara.

H₁ – There is significance difference in the consumption pattern between urban and rural Pokhara.

Hypothesis 2

H₀- There is no effect of income on consumption.

H₁- There is significant effect of income on consumption.

Hypothesis 3

H₀- There is no effect of household size on consumption.

H₁- There is significant effect of household on consumption.

Hypothesis 4

H₀- There is no effect of occupation on consumption.

H₁- There is significant effect of occupation on consumption.

F, t, chi-square test have been applied to test. These hypotheses as explained in analysis section.

1.5 Significance of the Study

Research has its own importance because it aims to gain some knowledge and new literature in the existence one. Primarily, the study is significant to the researcher himself for the fulfillment of the academic requirement of MA degree.

The study will help to know about the different consumption pattern of rural and urban Pokhara. It will find the relation between their income and consumption, consumption and household size and consumption and education level. The study will also provide the information about the source of their income and area of consumption expenditure.

The study will be beneficial to the different channel members who are directly and indirectly related with this field.

1.6 Limitation of the study

The study will focus mainly the income and consumption pattern of rural and urban Pokhara and the research will carry out for the partial fulfillment of an academic requirement of Masters Degree in Economics. So, the study processes some limitation of its own kind, which is listed below:

- The study concentrates only the income and consumption pattern of Urban and Rural Pokhara rather than considering other aspects of economics.
- The study covers only Pokhara Sub-Metropolitan City. It would be better covering whole Pokhara Valley or even whole Kaski district.

1.7 Organization of the study

This study is divided into five chapters. The first chapter concentrates on introductory part of the study. It includes the background, statement of the problem, objective of the study, significance of the study, limitation of the study and organization of the study. The second chapter consists of two types of review i.e. conceptual review and review of research work. Research review further divided into Nepalese context and foreign context. Research review includes dissertation, report, articles and journals. Research Methodology chapter contains the research methodology followed to achieve the purpose of the study. Similarly, the fourth chapter is concerned with the presentation and Analysis of data with the help of different tables, charts, statistical and analytical tools and techniques. Finally, the Summary and conclusion are included in the fifth chapter of the report.

In addition, appendices and references have also been included in the concluding part of the thesis.

CHAPTER II

REVIEW OF LITERATURE

Review of literature is basically stocktaking of available literature in the field of research. While conducting a research study, previous studies cannot be ignored, as that information would help to check the chance of duplication in the present study. The following sections are devoted to overview of concepts and theories in consumption and the review of related studies on the issue under investigation.

2.1 An Overview of Concepts and Theories

Well-known economist Keynes in his *General Theory of Employment, Interest, and money* wrote about effective demand, which is the point of interaction of aggregate demand (AD) and aggregate supply (AS). It shows the equilibrium point for employment, income and output. Again consumption demand which is infected by income and propensity to consume. As income increases consumption also increases but not as much as income (according to *Psychological law of consumption*). Now, talking about propensity to consume, it refers to the schedule while shows the level of consumption at different levels of income in an economy. In other words ratio between consumption and income is called propensity to consume. It has two aspects: APC and (MPC). APC, it shows the ratio between total consumption (C) and total Income (Y) at a given level of income/employment in an economy. (Cited in Ahuja, 2004)

$$APC = C / Y$$

Where, C = consumption Y = Income

MPC, it shows the ration between change in consumption (ΔC) and change in income (ΔY).

$$MPC = \Delta C / \Delta Y \quad \Delta C = \text{change in consumption} \quad \Delta Y = \text{Change in Income}$$

Keynes' Absolute Income Hypothesis

Keynes Consumption Function is related with short term consumption function. According to this theory consumption is determined by absolute level income. MPC is less than one but greater than zero (i.e. $1 > MPC > 0$). He also state that APC falls as income increases and consumption function remains constant.

According to absolute theory of Consumption function is:

$$C = a + b Y \quad \dots\dots\dots(2.1)$$

Where, C = consumption Y = income
 a = InterceptTerm b = MPC

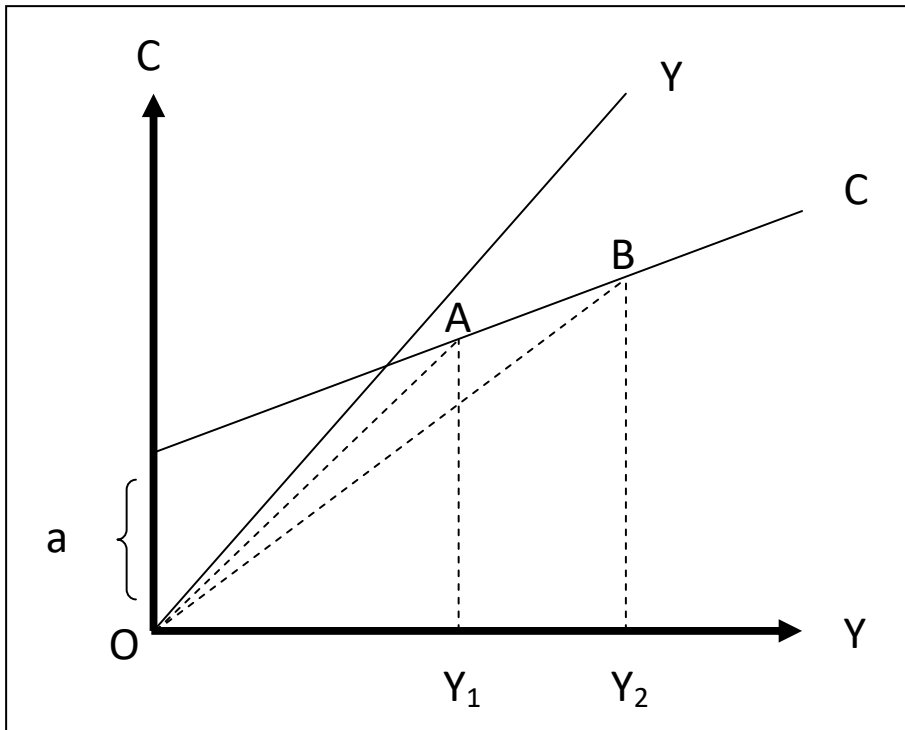


Figure 2.1 Absolute Consumption Curve

In the figure 2.1, x-axis represents income level and y-axis shows consumption expenditure. Here C is the consumption function curve. Average propensity to consume at a point on the consumption function curve can be obtained by measuring the slope of the ray from the origin to that point. For example, at income level OY_1 , corresponding point on the consumption function curve is A. Therefore, at OY_1 income level, average propensity to consume is the slope of the ray OA. Similarly at income level OY_2 , average

propensity to consume is the slope of the ray OB. It will observe from Figure 2.2 that slope of OB is less than that of OA. Therefore APC at income level OY₂ is less than that at income level OY₁. In other words APC has declined with the increase in income. (Keynes, 1936)

Kuznets’s Consumption function

On the basis of empirical study of long run times series data of the US economy Kuznets estimated a consumption function, which contradict Keynes consumption function. This contradict between these two different consumption function is known as Kuznets’s Puzzle. After his empirical study he found following consumption function:

$$C = bY \quad \dots\dots\dots(2.2)$$

Kuznets consumption function starts from origin which is very near to 45°. On the basis of empirical study Kuznets estimated that APC was nearly 0.9. Besides, by dividing the entire period (1869-1933) into three overlapping 30 years sub-periods Kuznets found that the proportion of consumption to income was nearly the same and equal to about 0.87 in all the three sub-periods. Thus Kuznets concluded that there was no tendency for the APC decline as disposable income rise. Thus, rounding off Kuznets estimates propensity to consume is equal to 0.9. According to this as the income increases APC do not falls.

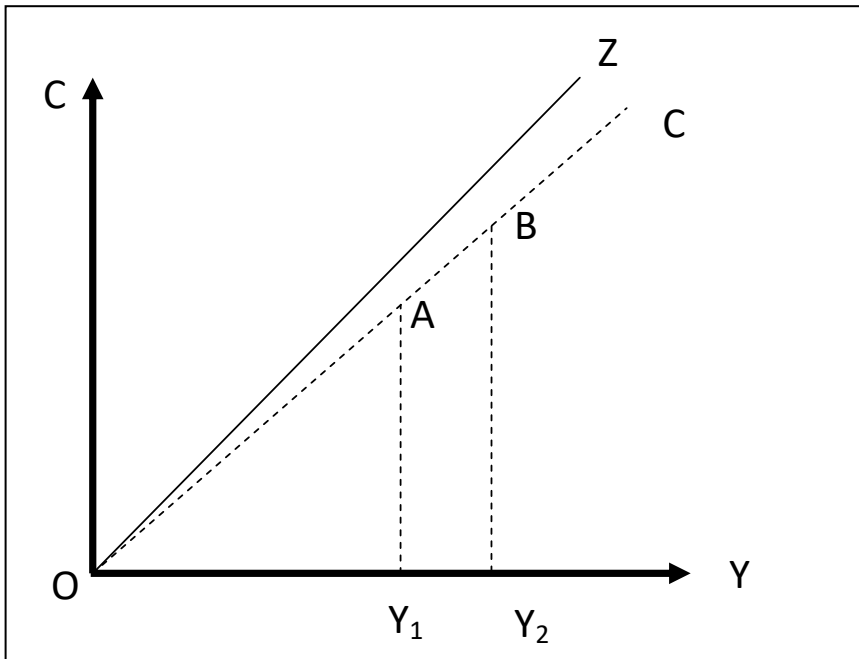


Figure 2.2 Kuznets Consumption Curve 9

Kuznets in his consumption found that APC remains constant, and MPC is greater than one (Kuznets, 1942)

Relative Income Theory of Consumption

An American economist Duesenberry put forward the theory of consumer behavior which lays stress on relative income of an individual rather than his absolute income as a determinant of his consumption. Another important departure made by Duesenberry from Keynes's consumption theory is that according to him consumption of a person does not depend on his current income but on certain previously reached income level. (Cited in Ahuja, 2004)

According to Duesenberry's relative income hypothesis, consumption of an individual is not the function of his absolute income but of his relative position in the income distribute in a society, that is. His consumption depends on his income relative to the income of other individual in the society. His relative income remained the same the individual will spend the same proportion of his income on consumption as he was doing before the absolute increase in his income. That is, his average propensity to consume (APC) will remain the same despite the increase in his absolute income.

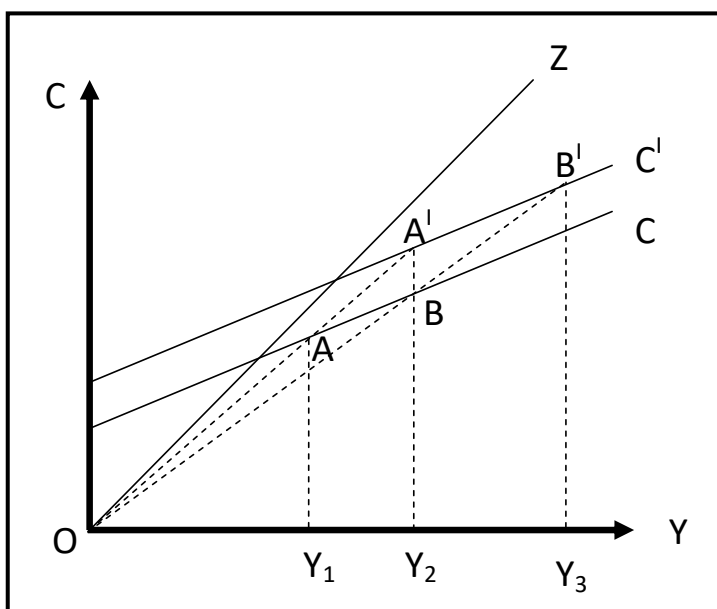


Figure 2.3 Duesenberry Consumption Curve.

This is illustrated in figure 2.3. Suppose a family A^I has Y^I level of income and is spending Y_1A^I on consumption. Suppose its income level rise to Y_2 . Now its consumption would not rise only to Y_2B but to Y_2A^I where A^I lies on the same ray from the origin as the previous point A of consumption. This implies that the consumption expenditure of family A has risen in the same proportion as its income with the result that its average propensity to consume remains constant.

As income increase and society moves along the same consumption function curve, its APC falls. But Duesenberry's relative income hypothesis suggests that as income increase consumption function curve shifts above so that APC remains constant. In Figure 2.3 it will seen that if point A^I and B^I are joined together, we get, a new consumption function curve. For this he put two reasons that are Demonstration Effect and Ratchet Effect.

Demonstration Effect, by emphasizing relative income as a determinant of consumption, the relative income hypothesis suggests that individuals or household try to imitate or copy the consumption levels of their neighbors or other families in a particular community. This is called demonstration effect of Duesenberry effect. Two things follow from this. First, the APC does not fall. This is because if incomes of all families increase in the same proportion, distribution of relative incomes would remain unchanged and therefore the proportion of consumption expenditure to income which depends on relative will remain constant. Secondly, a family with a given income would devote more of his income consumption if it is living in a community in which that income is regarded as relatively low because of the working of demonstration effect.

Ratchet Effect, the other significant part of Duesenberry's relative income hypothesis is that it suggests that when income of individuals or households falls, their consumption expenditure does not fall much. This is often called ratchet effect. This is because, according to Duesenberry, the people try to maintain their consumption at the highest level attained earlier. This is partly due to the demonstration effect explained above. They maintain their earlier consumption level by reducing their saving.

This is illustrated in figure 2.4 where on the X-axis is measured disposable income and on Y-axis the consumption and saving. Starting with disposable income zero, we assume that there is steady growth of income till reaches Y_1 . The linear consumption function C_{LR} is long run consumption function. It will see from the figure that at Y_1 level of disposable income, the consumption expenditure equals Y_1C_1 . Now suppose with initial income level Y_1 , there is recession in the economy with the result that disposable income falls to the level Y_0 . According to Duesenberry, consumption would not fall greatly to the level Y_0C_0 as the long run consumption function curve C_{LR} would suggest. In their bid to maintain their consumption level previously reached people would now save less and reduce their consumption level only slightly to $Y_0C_0^1$, whereas point C_0^1 is on the short run consumption function curve C_{SR} . Since $Y_0C_0^1$, the APC at income level Y_0 is greater at C_0^1 than C_1 at income level Y_1 . When the economy recovers from recession and disposable income increase, the economy would move along the short run consumption function curve C_{SR} till the consumption level C_1 is reached at income level Y_1 . Beyond this, with the growth of income the consumption will increase along the long run consumption function curve C_{LR} .

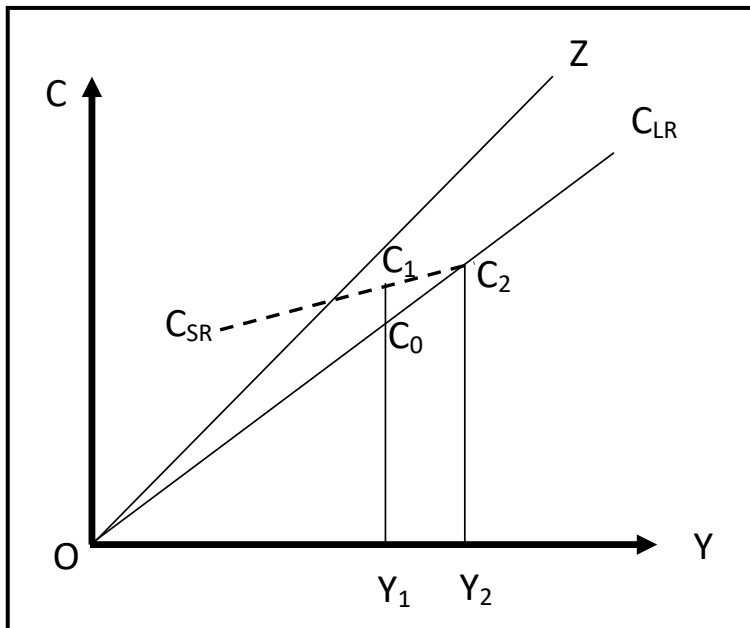


Figure 2.4 Long-Short Run Consumption Curve

Permanent Income Hypothesis

Permanent Income Hypothesis theory was put forward by a well known American economist Milton Friedman. According to Friedman consumption is determined by long run expected income rather than current level of income.

Friedman's Consumption function is:

$$C^p = k(i, w, u) Y^p \dots\dots\dots(2.4)$$

Where C^p is permanent consumption, k is proportion of permanent income and permanent consumption, i is interest rate, w is ratio of non-labour wealth to labour income, u is desire to add wealth, Y^p is Permanent income.

According to Friedman, if interest rate (i), ratio of non-labour wealth to labour income (w) and desire to add wealth (u) increases than consumption expenditure will rise and vice-versa. (Friedman, 1969)

Life Cycle Theory of Consumption

To resolve the Kuznets's puzzle Modigliani and Ando put forward a theory called Life Cycle Theory of Consumption. According to this theory the consumption in a period is not the function of current income of that period but, of the whole life time expected income. According to Modigliani and Ando a typical individual break his consumption in three phases;

- Consumption during 15-25 years of age (Dissaving)
- Consumption during 25-65 years of age (Saving)
- Consumption during 65-75 years of age (Dissaving)

According to Modigliani a typical consumer will consume more than his income in age of 15-25 year, during 25-65 years he save more, and at the last 10 years he will again consume more than his income. So, at last he will not save any income.

Ando-Modigliani suggested general consumption behavior i.e.

$$C_t = b_1 + Y_{LT} + b_2 Y_t^e + b_3 W_t \dots\dots\dots(2.3)$$

Where C_t is consumption expenditure in a period of period t , Y_{LT} is income earn in current period t , Y_t^e is average annual income expected to be earn in future years, W_t is

wealth currently earn, b_1 is MPC out of current income, b_2 is MPC out of expected life time and b_3 is MPC out of wealth.

Life cycle hypothesis has been depicted in figure 2.5. It is assumed that a typical individual knows exactly at what age he will die. In figure 2.5 it is taken that the individual would die at age of 75 years. That is, years 75 is his expected lifetime. It is further assumed in the life cycle theory that net saving in the entire lifetime is zero, that is, the saving done by the individual in his working years of his life is equal to the Dissaving made by him in his early years of life before he is able to earn income as well as the Dissaving which he makes after retirement. The curve YY^I shows income pattern of the whole life time of the individual whereas CC^I is the curve of consumption which is assumed to be slightly increasing as the individual grows old.

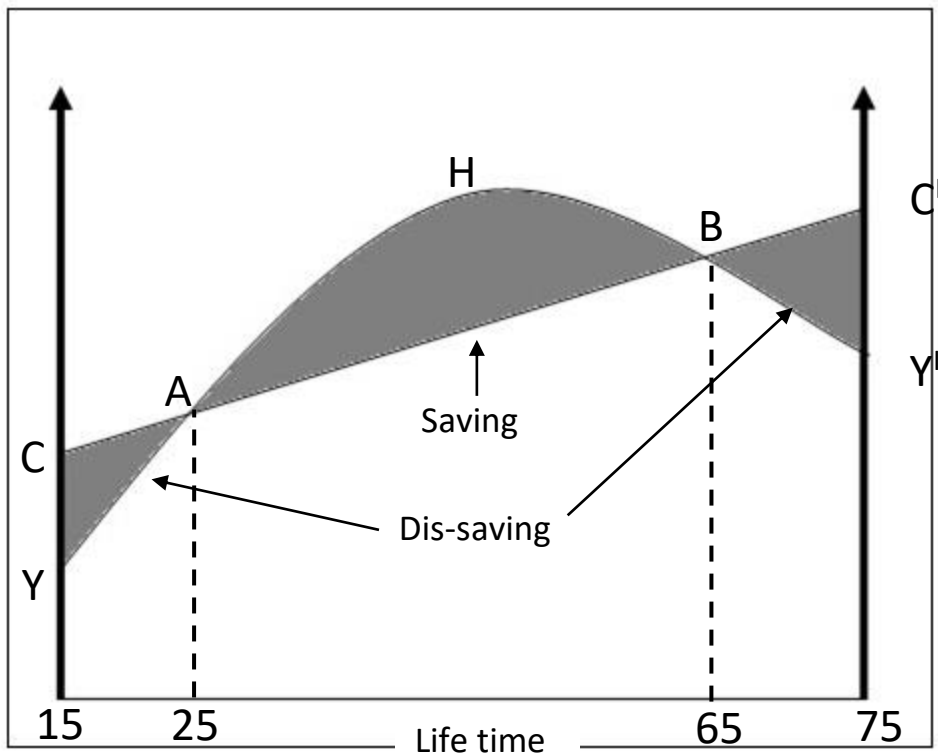


Figure 2.5 Life Cycle Consumption Curve

It is assumed that our individual enters into labour force at the age of 15 years. It will be noticed from fig 2.5 that up to the age of 25 years his income, though increasing, is

less than his consumption that is, he will be Dissaving during the first 13 years of his working life. To finance his excess consumption over his income, he may be borrowing from other.

Beyond the age of 25 or point A on the income and consumption curves and upto the age of 65 years his income exceeds his consumption, that is, he will be saving during this period of his working life. With these saving he will build up assets or wealth. He may use these saving or wealth to pay off his debt incurred by him in the early stage of his working life. It will be observed from figure 2.5 that beyond point B his current income falls short of his consumption and therefore he once again disaves. He would be using his accumulated assets or wealth from his earlier working years to meet the Dissaving after retirement at the age of 65. It is important to note that we assume that he does not intend to leave any assets for his children. therefore, in figure 2.5 his saving during the period when he earns more than his consumption expenditure, that is, the shaded area AHB will be equal to the two areas of dissaving, $CYA + BC^1Y^1$. Thus he dies leaving behind no assets. He has planned his consumption expenditure over years that his net savings at the time of death are zero. (Cited in Ahuja, 2004)

2.2 Review of Previous Studies

This section has reviewed previous research. Various researches have done by the government organization, private organization and individuals in the field of consumption expenditure.

Chitrakar (1992) in his case study of income expenditure pattern in urban household of Nepal has also found household size and income significant in determining the consumption expenditure. He used monthly consumption expenses as a simple linear function of monthly and household size. He used the data provided by household budget survey of NRB for calculation. The areas covered by the study were Biratnagar, Pokhara and Kathmandu.

Gautam (1996) conducted a research study on Asset structure, income distribution and consumption pattern in Nepal. He fitted Keynesian types of linear consumption

function to find out the MPC. For study of 90 household were randomly selected. The autonomous consumption was found to be higher with the higher income groups and in the same way MPC was also found increasing with decrease in income. He found that income and household size affect the consumption expenditure.

Gupta (1973) has conducted research on Consumption of food grains and clothing in India. He has tried to compare the consumption of food grains and clothing between rural and urban areas. He found that regression co-efficient, expenditure elasticity and percentage of food grains higher for rural areas, in the case of clothing too. The percentage of expenditure has been found higher for rural areas. The expenditure elasticity in rural was 1.49 to 2.09 and in urban it was 1.41 to 2.25.

HMG/MFA (1975) have done case studies of Barbote village Panchayat-Ilam. This study examined different expenditure accounts of the farm families. In this case study the size of the farm holding household were divided into three strata, namely I, II, III having below 1.0180 hectares, 1.0180 to 2.036 hectares and above 2.036 hectares of cultivated land respectively. The consumption of per farm mainly has found 87%, 78% and 74% of the income for the strata I, II, III respectively. For all the strata food consumption occupied more than 90% of the total consumption.

Risal (1990) in his study A short run consumption function for Nepal-preliminary estimated with macro time series data developed and tested different types of consumption model both Keynesian and post Keynesian for the period-1964/1965 to 1976/77 with macro series data in the context of Nepal. The Keynesian type of consumption function was found to be more suitable, then other Duesenberry and Friedman types of consumption function. In Keynesian type of consumption function the MPC was found 0.8713.

Mainale (1994) in his research Consumption Function: A case study of Dhankuta, Kathmandu, Pokhara and Surkhet estimated the MPC. In his study, a simple linear consumption function was fitted. The main objective of the study was to estimate the MPC for all four different development centers. The co-efficient of income that is MPC were found positive for all centers. But it was found more than one ($MPC > 1$) in Pokhara

and Dhankuta. For the country as a whole, Kathmandu and Surkhet, the income was found highly significant in determining consumption expenditure.

Niroula (1980) has carried a research on Household size and expenditure in Surkhet. He has tries to investigate the effects of household size on consumption expenditure in Surkhet with the help of data provided by the household budget survey, NRB. He found that household size affects consumption expenditure and the extent of this effect varies between commodities.

NRB (1973), it was important in the field of survey of consumption pattern. The objective of the survey was to determine expenditure pattern of Nepalese household in urban area and market centers. It was conducted in ten largest town Panchayats, four development centers and four market centers of Terai and hill. Data was provided about study of personal consumption expenditure, consumption elasticity and source of income. The major finding was that lower income group spent more on food items and vice-versa. It showed that increased in consumption according to their earning.

Poudel (1997) in his case study of Consumption function with special reference to Kalika VDC, found the consumption function. He concludes that income has significantly affected the consumption function. He found that MPC was positive but less than 1. APC fall as people become richer. Autonomous consumption is found decreasing as income decreases. MPC was found 0.559, 0.839 and 0.962 for large, small and marginal household respectively.

Puri (1987) in his research Income distribution and saving potentiality in Nepal aimed to analyze consumption pattern in different form group and examined their saving potentiality. He found that MPC and APC decrease as income increases. MPC was estimated at 0.97, 0.84 and 0.70 for small, medium and large farm groups respectively.

Sharma (1998) conducted a research on household level energy consumption in Nepal. The study was conducted to analyze the household demand for fuel wood in two different location of Makwanpur district. The objective was to determine and analyze the consumption pattern of fuel wood and other fuel at household level in relation to the

areas proximity to a forest area and urbanity or rurality. A multi stage random sampling design was adopted. It can be conclude that the most important factor affecting household demand for fuel wood are its own price, household income, price of other fuels, household size and rural-urban location of the household. The demand for fuel wood is highly price elastic.

From the Literature review it could be conclude that, from the time period of Keynes to Milton Friedman, consumption was an important dependent variable which was determined by various independent variables, such as income, lifetime and wealth. In the same way review of research work reveals about the MPC, which remains less than one. After the literature review it was found that there is no research has been done in Pokhara valley about its consumption expenditure. So, the present study will contribute to the literature about the consumption expenditure of Pokhara.

CHAPTER III

RESEARCH METHODOLOGY

The present chapter is divided in seven different parts: study area, research design, nature and source of data, population and sample, method of data collection, specification of variable and description of variables and methods of data processing and analysis. Particularly the chapter reveals about the study area, how data are gathered and what was the model.

3.1 Study Area

For the present study PSM as a whole is taken as the study area. Which consist 18 different wards among them 11 wards are urban ward and 7 other wards are rural ward. Total area of study area is 55.22 km² with total number of Households 37305. Tourism, service sector & manufacturing contributes approximately 58 percent to the economy, remittances about 20 percent and the agriculture nearly 16 percent.

3.2 Research Design

The basic aim of the study is to compare the consumption pattern of rural and urban Pokhara. The present study is based upon the casual comparative research design to find out the actual condition of their income and consumption pattern and to provide necessary possible suggestion for it.

3.3 Nature and Sources of Data

For the study primary and secondary data are used. The use of primary data is predominant. Primary data has been collected from urban and rural household of selected wards. Secondary data are also used in need that constitutes data from PSM, Economic Survey, NLSS, books and journals.

3.4 Population and Sample

In order to conduct this research study primary data were collected with the help of multistage sampling method. All the 18 wards were taken as population. Out of these, two wards were selected as sample ward. Ward number 14 and 10 were purposely chosen as rural and urban ward. According to office of PSM ward number 10 is the second largest ward, based on the basis of number of households but holding second position in least area size. In the same way ward number 14 is the biggest ward on the basis of size of area but having least number of households. For the sample size, the formula $n_h = n (N_n/N)$ was used. From the formula it was found that sample size for rural was 30 and for urban was 130 respectively. Table 3.1 depicts that, location Rambazar and Ramghat area was survey location of urban respondents. Here total numbers of household were 2938. The sample size was 130, which is 4.2 percent of the total household. Similarly Cauthe area was survey location of rural respondents. Here total number of household is 520, sample size for this ward was 30. To find out the sample size formula was used:

$$n_h = n (N_n / N) \quad \dots\dots\dots (3.1)$$

Where

n_h = Sample size

n = Total sample size

N_n = Total HHs of that particular ward

N = Total HHs from both wards

Table 3.1 Sample HHs by selected wards

Ward	Survey Location	Total HHs (N_n)	Sample HHs(n_n)	Percentage
10	Ramghat, Rambazar	2938	130	4.2
14	Cauthe	520	30	5.7
Total		N=3456	n=160	

3.5 Methods of Data Collection

For the primary data collection structured interview schedule method was used. Most of the respondents were head of the household. The interview schedule used for the data collection is presented in Appendix B. Randomly selected households from ward number 10 and 14 were interviewed.

Secondary data are retrieved from official website of MOF and CBS. Economic Survey was studied from MOF database. Similarly different volumes of NLSS were studied from CBS database.

3.6 Specification of variable and description of variables

Per capita income (PCI)

Per capita income or income per person is a measure of [mean income](#) within an economic aggregate, such as a country or city. Here PCI is kept in three different categories. Firstly, low income which scales from Rs.0 to Rs.4000. Secondly, medium income group, which range from Rs.4000 to Rs.8000. lastly, High income group which range above Rs.8000. To calculate PCI, total income is divided by household size and it is calculated on monthly basis. To get PCI, at first all the sources of income of a household were added, than it was divided by total number of household member.

Per capita consumption (PCC)

Per capita consumption is a measure of [mean](#) consumption within an economic aggregate, such as a country or city. It is calculated by taking a measure of all sources of consumption in the aggregate and dividing it by the total population. Same as PCI, Per Capita Consumption is also kept in three different categories: Low consumption group, medium consumption group and high consumption group, which range from Rs.0-Rs.4000, Rs.4000-Rs.8000 and above Rs.8000. To calculate PCC total consumption is divided by total household size and it is calculated in monthly basis. PCC has divided in three different titles: Food, Non-Food and Housing.

Household size

Household size is also taken as an important variable which effect consumption level. Here household size means number of usual household members. The household size also categorized in three different categories: Small sized, medium sized and large

sized household. Small sized household contains members below 4, medium sized household contains 4 to 7 members and large sized household contains more than 7 members respectively.

Year of education

Education level is also counted as an important variable for the consumption expenditure. In this study it is categorized into different groups: under SLC (Below 10 class), SLC (Class 10), Higher Secondary (Class 12), Bachelor (Class 15) and Masters (Class 17).

Dummy variable (remittance)

In [regression analysis](#), a dummy variable (also known as an indicator variable) is one that takes the values 0 or 1 to indicate the absence or presence of some categorical effect that may be expected to shift the outcome. In this study, remittance is used as a dummy variable. Presence of remittance is counted as 1 and absence of remittance counted as 0 (zero).

3.7 Methods of Data Processing and Analysis

In the research work, descriptive and analytical tools were used to get meaningful results from the collected data and to meet the research objective. Graphs, charts, diagrams etc. were used to analyze and present the data and information to make it more understandable. The major statistical tools which will be used are listed below:

Data processing

For the data processing coding, entry and tabulation of data were done. During the process of coding, responses of respondents were put together in a frame. After this, data were entered into spreadsheet and then into SPSS software. The data were further tabulated to display it in compact form. For this cross tabulation was also used by SPSS software.

Methods and tools of analysis

For the analysis of data, descriptive statistics, regression, hypothesis test and non-parametric test has been done.

Descriptive statistics

Statistics, which describe the data that have been gathered, are called descriptive statistics. It allows us to summarize the proportion of an entire distribution. Here in the study frequency, mean, median and standard deviation has been used to summarize the data. To find out these distribution SPSS software was used.

Regression analysis

Regression analysis attempts to establish the nature of relationship between variables that is, to study the functional relationship between the variable and there by provide a mechanism for prediction or forecasting. With the help of regression analysis, the relationship between consumption, income, household size and education level can be found. Under this section Model and R^2 have been kept.

Specification of Model

Regression models are used to predict one variable from one or more other variables. Regression models provide the scientist with a powerful tool, allowing predictions about past, present, or future events to be made with information about past or present events.

Multiple regression models

Multiple linear regression attempts to model the relationship between two or more explanatory variables and a response variable by fitting a linear equation to observed data. Every value of the independent variable x is associated with a value of the dependent variable y .

Linear

$$\text{Rural: } PCC_R = a + b_1PCI + b_2Edu + b_3HHS\text{Size} + e$$

$$\text{Urban: } PCC_U = a + b_1PCI + b_2Edu + b_3HHS\text{Size} + e$$

$$\text{Overall: } PCC_O = a + b_1PCI + b_2Edu + b_3HHS\text{Size} + e$$

Log-Linear

$$\text{Rural: } \text{Log}PCC_R = a + b_1\text{Log}PCI + b_2\text{Log}Edu + b_3\text{Log}HHS\text{Size} + e$$

$$\text{Urban: } \text{Log}PCC_U = a + b_1\text{Log}PCI + b_2\text{Log}Edu + b_3\text{Log}HHS\text{Size} + e$$

$$\text{Overall: } \text{Log}PCC_O = a + b_1\text{Log}PCI + b_2\text{Log}Edu + b_3\text{Log}HHS\text{Size} + e$$

Linear form with remittance as dummy variable

$$\text{Rural: } PCC_R = a + b_1PCI + b_2Edu + b_3HHS\text{Size} + b_3\text{Rem} + e$$

$$\text{Urban: } PCC_U = a + b_1PCI + b_2Edu + b_3HHSize + b_3Rem + e$$

$$\text{Overall: } PCC_O = a + b_1PCI + b_2Edu + b_3HHSize + b_3Rem + e$$

Co-efficient of determination (R^2)

In [statistics](#), the coefficient of determination R^2 is used in the context of statistical models whose main purpose is the prediction of future outcomes on the basis of other related information. It is the proportion of variability in a data set that is accounted for by the statistical model. It provides a measure of how well future outcomes are likely to be predicted by the model.

$$R^2 = \frac{\text{ExplainedVariation}}{\text{TotalVariation}}$$

Hypothesis testing

Hypothesis testing statistics allow us to use mathematical principles to decide how likely it is that our sample result match our hypothesis about a population. t-test was done for regression coefficient. Similarly mean difference test was also done to find out the difference between rural and urban mean. Again chi-square test of independence was done to identify the factors affecting consumption expenditure. The chi-square test is an important test amongst the several test of significance developed by statistician. Chi-square is a statistical measure used in the context of sampling analysis for comparing frequencies as well as variance of distribution. As a non-parametric test it can be used to determine if categorical data shows dependency or two classifications are independent. Chi-square is used to find the relationship between consumption and other variables like income, household size, and education level.

All the above tests are done with the help of SPSS-16 software. At first all the data were stored in SPSS than variables were defined after that all the data analysis were done.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

This chapter is the main chapter of the study. It is organized in different topics to fulfill the objective of the study. It is divided into different sections. The first section gives a brief introduction of respondents from whom data are collected. Second section explains about the descriptive statistics of rural and urban Pokhara with mean difference test of different categories of expenditure. Here total number of sample, maximum, minimum, mean and standard deviation are derived. Third section explains about the frequency of consumption expenditure. Similarly, fourth section briefly examine the factors which effects the consumption expenditure; income, household size and education. Fifth section explains the determinant of consumption expenditure. Here determinant will be thoroughly watched and effect will be displayed. Inside this consumption function in linear form and log linear form is explained. Similarly consumption function with dummy variable is also explained. At last consumption and income relationship is explained with the help of consumption function curve. So, this section thoroughly analyzes and represents the finding.

4.2 Respondent Characteristics

The characteristics of respondents were quite different as they were in different locations. Urban people have different cardinal number in age group, occupation and income level than rural people. So, this section explains frequency and percentage by income group, age group occupation, place of residence, household size and caste and ethnicity. It gives a rough sketch about the respondent, that how the characteristics of urban people were so different from rural one.

Table 4.1: Respondents Characteristics

Characteristics	Category	Rural		Urban		Over all	
		F	%	F	%	F	%
Income Group	Low Income (0-4000)	13	43.33	3.00	2.31	16	10.0
	Medium Income (4000-8000)	15	50.00	88.00	67.69	103	64.4
	High Income (8000 Above)	2	6.67	39.00	30.00	41	25.6
Age Group	0-25	0	0	8	6.2	8	5
	25-50	30	100	108	83.1	138	86.2
	50 Above	0	0	14	10.8	14	8.8
Occupation	Farmer	7	23.3	0	0	7	4.4
	Business	7	23.3	27	20.8	34	21.2
	Service (National)	10	33.3	21	16.2	31	19.4
	Service (Foreign)	6	20	73	56.2	79	49.4
	Others	0	0	9	6.9	9	5.6
Place of Residence	Local	21	70	92	70.8	113	70.6
	Migrated	9	30	38	29.2	47	29.4
HH Size	Small (0-4)	20	66.7	94	72.3	114	71.2
	Medium (4-7)	7	23.3	25	19.2	32	20
	Large (More Than 7)	3	10	11	8.5	14	8.8
Caste/Ethnicity	Brahmin	3	10	13	10	16	10
	Gurung	14	46.7	58	44.6	72	45
	Chettri	4	13.3	11	8.5	15	9.37
	Magar	4	13.3	11	8.5	15	9.37
	Chaudhary	0	0	5	3.8	5	3.12
	Kumal	0	0	4	3.1	4	2.5
	Newar	4	13.3	15	11.5	19	11.87
	Pariyar	1	3.3	1	0.8	2	1.25
	Tamang	0	0	4	3.1	4	2.5
	Thakuri	0	0	7	5.4	7	4.37
	Tharu	0	0	1	0.8	1	0.62
	Others	0	0	0	0	0	0

Source: Field Survey, 2011

Income group

Table 4.1 reveals that, rural and urban respondent are different structure of income level. In rural residence the percentage of low income group is high (66.7%), followed by middle income (30%) and then high income (3.3%). In Urban, income distribution is different than rural. A Majority of middle income group (83.8%), followed by low income (10%) and high income group (6.2%). In overall the structure is similar to urban, it is maximum in middle income group (73.8%), followed by low income (20.6%) and then high income group (5.6%).

Age group

Table 4.1 reveals about the age of rural respondent stuck in between 25-50 age groups, it means all the respondents have age in between 25 to 50 years. Secondly, large number of urban respondents was in 25-50 years group i.e., 83 percent, 10.8 percent was above 50 years group and 6.2 percent were less than 25 years group. In overall 25-50 years group has highest percentage 86.2 percent, followed by 50 years and above with 8.8 percent and then by below 25 years group with 5 percent.

Occupation group

On the basis of occupation's category large number of rural population were engaged in service job with in the country, it occupy 33.3 percent of total population, whereas farming and business people occupy 23.3 percent. On the other hand 20 percent of populations were out of the country for Foreign Service. The story is very different in urban area, 56.2 percent people were busy in foreign employment, 16.2 percent were engaged in national service and 6.9 percent were in other types of occupation. In overall 49.4 percent were busy in foreign employment, 21.2 percent in business, 19.4 percent in national service, 4.4 percent in farming and 5.6 percent in other types of occupation. It indicates that half of income source is in the form of remittance.

Place of residence

From the rural respondents as a whole 70 percent were local, in other words out of 30 household 21 were migrated. 30 percent were local or native people. Similarly 70.8 percent of urban people were local and 29.2 percent were migrated from different part of the country. In overall 70.6 percent of population were local and 29.4 percent were migrated. It shows that more percentage of native residents is in the sample.

Household size

In rural area 66.7 percent of household have less number of house members. 23.3 percent of household have members between 4 to 7 and 10 percent have more than seven members. Same situation is followed by urban, 72.3 percent were having small size families, 19.2 percent have medium size family and 8.5 percent have large size family. In overall 71.2 percent were having small family, 20 percent were in medium category and 8.8 percent in large sized family.

4.3 State of Consumption Expenditure

Descriptive statistics, which describe the data that have been gathered, are called descriptive statistics. This portion will describe the total number, maximum number, minimum number, mean and standard deviation of rural, urban and overall data. Descriptive statistics gives a background about the sample.

Table 4.2 reports that in Rural Pokhara the total number of sample is 30. Out of 30, minimum number of household size is two, maximum number of household is nine, the mean is 4.03 and standard deviation is 2.11. Next, in education, minimum level of education respondent is SLC and maximum is bachelor. Their mean is 11.5 and standard deviation is 1.43. Further, minimum per capita consumption is Rs.1810 and maximum is Rs7640. Their mean is 3986.07 and standard deviation is 1747.29. Last but not the least minimum per capita income is Rs.1875 and maximum is Rs.11500. Their mean is Rs.4849.63 and standard deviation is Rs.2448.32. The

Table 4.2: Descriptive Statistics

Rural Pokhara					
	N	Min	Max	Mean	SD
HH Size	30	2	9	4.03	2.11
Education	30	10	17	13.4	1.83
PCC	30	1810	7640	3986.07	1747.29
Per Capita Housing Consumption	30	300.00	1390.00	714.32	273.67
Per Capita Food Consumption	30	731.25	4250.00	2097.68	1081.60
Per Capita Non-Food Consumption	30	443.75	2125.00	1174.07	490.48
PCI	30	1875	11500	4849.63	2448.32
Urban Pokhara					
HH Size	130.00	2.00	12.00	4.37	1.89
Education	130.00	8.00	17.00	13.08	2.43
PCC	130.00	3140.00	11660.00	6282.96	1248.30
Per Capita Housing Consumption	130.00	620.00	3700.00	1683.86	522.25
Per Capita Food Consumption	130.00	1337.50	5630.00	2830.79	706.00
Per Capita Non-Food Consumption	130.00	816.67	3575.00	1768.31	521.09
PCI	130.00	3444.44	13333.33	7559.79	1855.16
Overall					
HH Size	160.00	2.00	12.00	4.31	1.93
Education	160.00	8.00	17.00	13.14	2.33
PCC	160.00	1810.00	11660.00	5852.29	1621.68
Per Capita Housing Consumption	160.00	300.00	3700.00	1502.07	615.67
Per Capita Food Consumption	160.00	731.25	5630.00	2693.33	836.75
Per Capita Non-Food Consumption	160.00	443.75	3575.00	1656.89	564.19
PCI	160.00	1875.00	13333.33	7051.64	2238.65

Source: Field Survey 2011

per capita housing consumption, per capita food consumption and per capita non-food consumption are 714.32, 2097.68, 1174.07 respectively.

In Urban Pokhara the total number of sample is 130. Out of this, minimum number of household size is two, maximum number of household is 12, whereas mean is 4.37 and standard deviation is 1.88. Secondly, in education, minimum year of education of respondents is 8 and maximum is 17. Its mean is 13.08 and standard deviation is 2.43. Thirdly, minimum per capita consumption is Rs.3140 and maximum is Rs.11660. Its mean is 6282.96 and standard deviation is 1248.30. The mean per capita housing consumption expenditure, mean per capita food consumption expenditure, mean per capita non food consumption expenditure and mean per capita housing consumption expenditure are 1683.86, 2830.79 and 1768.31 respectively. Lastly minimum per capita income is Rs.3444.44 and maximum was Rs.13333.33. Their mean is Rs.7559.79 and standard deviation is Rs.1855.16.

In overall, household size, minimum number of household size is two, maximum number of household is twelve, whereas mean is 4.31 and standard deviation is 1.93. In education, minimum year of education of respondent is 8 years and maximum is 17 years. Their mean is 13.14 and standard deviation is 2.33. Minimum per capita consumption is Rs.1810 and maximum is Rs.11660. Their mean is 5852.29 and standard deviation is 1621.68. The mean per capita housing consumption expenditure, mean per capita food consumption expenditure, mean per capita non food consumption expenditure and mean per capita housing consumption expenditure are 1502.07, 2693.33 and 1656.89 respectively. Lastly minimum per capita income is Rs.1875 and maximum is Rs. 13333.33. Their mean is Rs. 7051.64 and standard deviation is Rs. 2238.65.

From table 4.2, it would be conclude that mean PCC of Urban respondent is Rs.6282.96, which is higher than that of rural respondent i.e. Rs.3986.07. Similarly in overall mean PCC is Rs.5852.2. Similarly mean PCC housing consumption of urban is higher than rural respondents.

Table 4.3 demonstrates about Mean Difference Test, which states mean difference of PCC between rural and urban respondents. Mean of Urban PCC is 2296.9. The test is statistically significant at 1 percent level of significance. So, it is clear there is difference in PCC expenditure in rural and urban respondents.

Likewise, mean difference of per capita food consumption expenditure is 733.1 which show there is difference between per capita food consumption expenditure in rural and urban respondents. The test is statistically significant at 1 percent level of significance. So, it is clear there is difference in per capita food expenditure in rural and urban respondents.

In the same way, mean difference of per capita non food expenditure is 594.24 which show there is difference between per capita non food consumption expenditure in rural and urban respondents. The test is statistically significant at 1 percent level of significance. So, it is clear there is difference in per capita non food expenditure in rural and urban respondents. Similarly, mean difference of per capita housing expenditure is 969.53 which show there is difference between per capita non food consumption expenditure in rural and urban respondents. The test is statistically significant at 1 percent level of significance. So, it is clear there is difference in per capita housing expenditure in rural and urban respondents.

Table 4.3: Mean Difference Test

Particulars (Rs.)	Mean Difference	SD	t	DF	Sig
PCC expenditure	2296.9	1248.3	8.38	158	0.00
Per capita food expenditure	733.1	706	4.59	158	0.00
Per capita non food expenditure	594.24	521.09	5.69	158	0.00
Per capita housing expenditure	969.53	522.24	9.84	158	0.00

Source: Field Survey 2011

From the above it is clear there is difference in the mean of per capita consumption expenditure between rural and urban respondents. It is also clear there is difference in the mean of per capita food expenditure, per capita non food expenditure and per capita housing expenditure.

4.4 Factors Affecting Consumption Expenditure

This section will analyze the effect of factors like income, occupation and household size on consumption expenditure. So, to find out the effect cross tabulation has been done between consumption and the factors. To check the significance, chi-square test has been done, which is a non-parametric test.

Table 4.4, shows the output of cross tabulation between consumption category and income category, 13 respondents of low income category have low consumption. Likewise out of 15 medium income respondents, 2 respondents have low consumption and 13 respondents have medium level of consumption. Further 2 high income respondents have medium consumption expenditure. In other word, 15 rural respondents have low consumption expenditure and 15 respondents have medium consumption expenditure.

Cross tabulation between consumption category and occupation category shows that out of 7 farmer categories, 3 have low consumption expenditure and 4 respondents have medium consumption expenditure. Likewise, out of 7 business category 5 respondents have low consumption expenditure and 2 respondents have medium consumption expenditure. Similarly out of 10 respondents of national service category 5 comes under low consumption expenditure and 5 respondents have medium consumption expenditure. Further, out of 6 respondents of Foreign Service category, 2 respondents have low consumption expenditure and 4 respondents have medium consumption expenditure.

Cross tabulation between consumption category and household size category reveals that out of 20 small household size respondents, 5 respondents have low consumption expenditure and 15 respondents have medium consumption

expenditure. Likewise, out of 7 medium size household categories all the respondents have low consumption expenditure. Similarly 3 large household category respondents have low consumption expenditure. From the above information we could conclude that income and household size have effect on consumption expenditure. It supports the alternative hypothesis, which means there is effect of income and household size on consumption. It is also similar to Psychological Law of consumption put forward by Keynes.

Table 4.5 reveals the finding of cross tabulation between consumption category and other categories of urban respondents. Cross tabulation between consumption category and income category demonstrate that 3 respondents of low income category have low consumption expenditure.

Further, out of 39 respondents of high income category, 33 respondents have medium consumption expenditure and 6 respondents have high consumption expenditure. In total, out of 130 respondents, 6 have medium consumption expenditure and 6 have. Similarly out of 88 respondents, 3 respondents of medium income category and 85 respondents have medium consumption expenditure.

Cross tabulation between consumption category and occupation category demonstrate that out of 27 business category respondents, 25 respondents have medium consumption expenditure and 2 respondents have high consumption expenditure. Similarly, out of 21 national service category 2 respondents have low consumption expenditure and 19 respondents have medium consumption expenditure. Further, out of 73 Foreign Service category respondents, 4 respondents have low consumption expenditure, 65 respondents have medium consumption expenditure and rest 4 respondents have high consumption expenditure.

The information of table 4.5 supports the 3rd alternative hypothesis and shows that there is effect of income and household on consumption expenditure. Urban consumption is also similar to Psychological Law of consumption

Table 4.4 Cross Tabulation of Consumption Category and other HH Characteristics (Rural Sample HHs)

Consumption Category * Income Category Cross tabulation				
Consumption Category	Income Category			
	Low Income (0-4000)	Medium Income (4000-8000)	High Income (8000 Above)	Total
Low Consumption(0-4000)	13	2	0	15
Medium Consumption(4000-8000)	0	13	2	15
Total	13	15	2	30
Validity	100 Percent			

Consumption Category * Occupation Category Cross tabulation					
Consumption Category	Occupation Category				
	Farmer	Business	Service National	Service Foreign	Total
Low Consumption (0-4000)	3	5	5	2	15
Medium Consumption (4000-8000)	4	2	5	4	15
Total	7	7	10	6	30
Validity	100 Percent				

Consumption Category * HH Size Category Cross tabulation				
Consumption Category	HH Size Category			
	Small	Medium	Large	Total
Low Consumption (0-4000)	5	7	3	15
Medium Consumption (4000-8000)	15	0	0	15
Total	20	7	3	30
Validity	100 Percent			

Source: Field Survey, 2011.

**Table 4.5 Cross Tabulation of Consumption Category and other HH Characteristics
(Urban Sample HHs)**

Consumption Category * Income Category Cross tabulation				
Consumption Category	Income Category			
	Low Income (0-4000)	Medium Income (4000-8000)	High Income (8000 Above)	Total
Low Consumption(0-4000)	3	3	0	6
Medium Consumption(4000-8000)	0	85	33	118
High Consumption(8000-Above)	0	0	6	6
Total	3	88	39	130
Validity	100 Percent			

Consumption Category * Occupation Category Cross tabulation					
Consumption Category	Occupation Category				
	Business	Service National	Service Foreign	Other	Total
Low Consumption (0-4000)	0	2	4	0	6
Medium Consumption (4000-8000)	25	19	65	9	118
High Consumption (8000-Above)	2	0	4	0	6
Total	27	21	73	9	130
Validity	100 Percent				

Consumption Category * HH Size Category Cross tabulation				
Consumption Category	HH Size Category			
	Small	Medium	Large	Total
Low Consumption (0-4000)	0	0	6	6
Medium Consumption (4000-8000)	88	25	5	118
High Consumption (8000-Above)	6	0	0	6
Total	94	25	11	130
Validity	100 Percent			

Source: Field Survey, 2011.

Further, out of 11 large sized household respondents have, 6 respondents have low consumption expenditure and 5 respondents have medium consumption. Similarly cross tabulation between consumption category and household size category depicts that out of 94 small sized household 88 respondents have medium consumption expenditure and 6 respondents have high consumption expenditure. Similarly, 25 medium sized household have medium level of consumption expenditure.

Table 4.5, demonstrate the outcome of cross tabulation of overall data. Cross tabulation between consumption category and income category reveals that, all the 16 respondents of low income have low consumption expenditure. Similarly, out of 103 medium income respondents 5 respondents have low consumption expenditure and 98 respondents have medium consumption expenditure. Further, out of 41 high income respondents 35 respondents have medium consumption expenditure and 6 respondents have high consumption expenditure.

Cross tabulation between consumption category and occupation category reveals that, out of 7 farmer category respondents 3 respondents have medium consumption expenditure and 4 respondents have medium consumption expenditure. Similarly out of 43 business category respondents, 5 respondents have low consumption expenditure, 27 respondents have medium consumption expenditure and 2 respondents have high consumption expenditure. Further, out of 31 national service category respondents, 7 respondents have low consumption expenditure, 24 respondents have medium consumption expenditure. Likewise, out of 79 Foreign Service category respondents, 6 respondents have low consumption expenditure, 69 respondents have medium consumption expenditure and 4 respondents have high consumption expenditure. Lastly all the respondents of others category have medium consumption expenditure.

**Table 4.6 Cross Tabulation of Consumption Category and other HH Characteristics
(Overall Sample HHs)**

Consumption Category * Income Category Cross tabulation				
Consumption Category	Income Category			
	Low Income (0-4000)	Medium Income (4000-8000)	High Income (8000 Above)	Total
Low Consumption(0-4000)	16	5	0	21
Medium Consumption(4000-8000)	0	98	35	133
High Consumption(8000-Above)	0	0	6	6
Total	16	103	41	160
Validity	100 Percent			

Consumption Category * Occupation Category Cross tabulation						
Consumption Category	Occupation Category					
	Farmer	Business	Service National	Service Foreign	Others	Total
Low Consumption (0-4000)	3	5	7	6	0	21
Medium Consumption (4000-8000)	4	27	24	69	9	133
High Consumption (8000 Above)	0	2	0	4	0	6
Total	7	34	31	79	9	160
Validity	100 Percent					

Consumption Category * HH Size Category Cross tabulation				
Consumption Category	HH Size Category			
	Small	Medium	Large	Total
Low Consumption (0-4000)	5	7	9	21
Medium Consumption (4000-8000)	123	25	5	133
High Consumption (8000-Above)	6	0	0	6
Total	134	32	14	160
Validity	100 Percent			

Source: Field Survey, 2011.

Cross tabulation between consumption category and household size category depicts that out of 134 small sized household respondents, 5 respondents have low consumption expenditure, 123 respondents have medium consumption expenditure and 6 have high consumption expenditure. Similarly, out of 32 medium sized household respondents, 7 respondents have low consumption expenditure and 25 respondents have medium consumption expenditure. Further, out of 14 large household sized respondents, 9 respondents have low consumption expenditure and 5 respondents have medium consumption expenditure. In total, out of 160 respondents, 21 respondents have low consumption expenditure, 133 respondents have medium consumption expenditure and 6 have high consumption expenditure.

4.5 Pattern of Consumption Expenditure

This section explains how the consumption expenditure is distributed in rural and urban Pokhara. It will also explain about the population, consumption expenditure in food, non-food and house expenses. In this section consumption pattern of rural, urban and overall is explained and accompanied by pie chart.

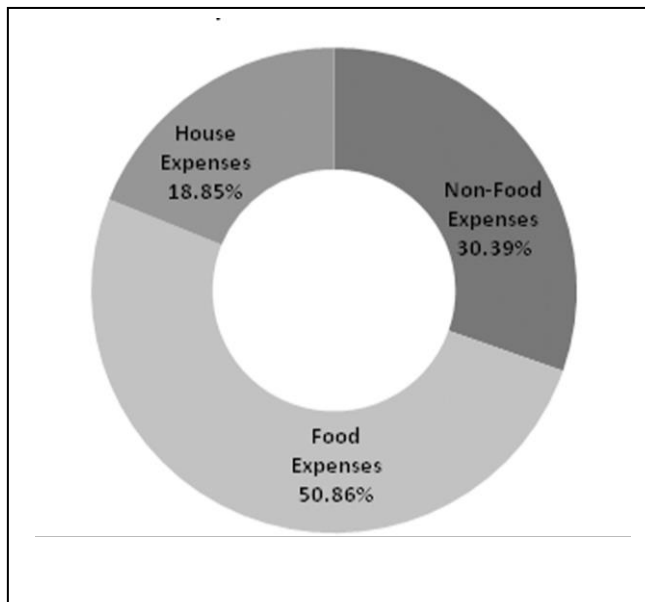


Figure 4.1 Consumption Pattern in Rural Pokhara

It is illustrated in the figure 4.1 that Consumption expenditure of Rural Pokhara has more percentage on food expenses, which is 50.86 percent. Non-food expenses holds second place in the ranking with 30.39 percent, and then followed by housing expenses with 18.85 percent. So, this chart reveals that people of rural Pokhara do more expenditure on food items. Next, on non-food and then house expenses

Consumption expenditure of urban respondent has been depicted in figure 4.2 it reveals that consumption pattern of Urban respondent is different than Rural respondent. It has 44.10 percent of consumption out of total consumption, which is less than Rural Pokhara. In non-food it has 28.93 percent, which is less than Rural Pokhara. But consumption on housing is higher than Rural Pokhara with 26.97 percent. So, the Figure 4.2 reveals that, urban people spend more on food items than on non-food and house expenses.

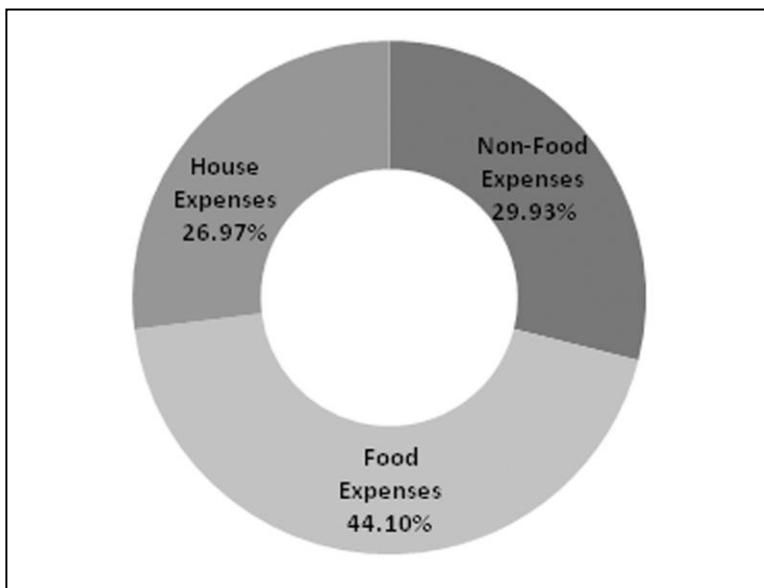


Figure 4.2 Consumption Pattern in Urban Pokhara

In overall also the percentage of expenses on food is high with 44.08 percent. In Non-food the expenses is 29.07 percent and in housing its 26.12 percent. It concludes that, in overall the expenditure is high for food items, followed by non-food item and then on house expenses

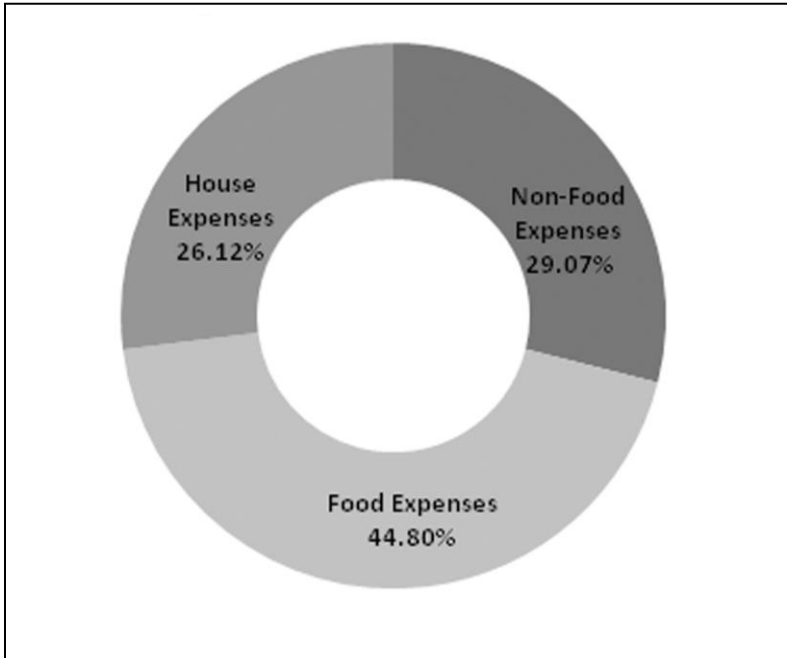


Figure 4.3 Consumption Pattern in Overall

From the diagram 4.1, 4.2 and 4.3 and there explanation could conclude that rural respondent have done more consumption on food and non-food items than that of urban respondents. In the same way urban respondents have done more consumption expenditure on housing expenses. In NLSS 2010/11 the pattern is similar to the study.

4.6 Determinants of Consumption

In any economy there are list of factors which determine consumption, out of them three factors are taken as determinants of consumption here, that is, income, Household size and level of education are taken as determinants of consumption. In rural and urban Pokhara, income plays a significant determinant to raise the level of consumption.

4.6.1 Estimating consumption function (linear form)

Like Post-Keynesian theories which talks about different determinants; permanent income, income, interest rate. In this study income, household and education are taken as major determinants.

In the table 4.7, linear consumption function of rural Pokhara is given. Here 5409.67 is the intercept term. The estimate of co-efficient term which is attached with PCI explains that the one unit of income rise will also increase the consumption expenditure by 0.435 paisa. From the point of view of significance of

Table 4.7: Result of Linear Consumption Function

Area	Function
Rural	$PCC_R = 5409.676 + 0.435PCI^* - 323.126 HHSize^* - 193.919Edu^*$ <p style="text-align: center;">(5.695) (-3.604) (-2.560)</p> $R^2 : .904$ $F : 81.126$ $Sig : .000^*$
Urban	$PCC_U = 3291.754 + 0.465 PCI^* - 155.582 HHSize^* + 11.918Edu$ <p style="text-align: center;">(11.213) (-3.806) (0.023)</p> $R^2 : .763$ $F : 134.86$ $Sig : .000^*$
Overall	$PCC_o = 1426.705 + 0.623 PCI^* - 54.851HHSize + 21.144Edu$ <p style="text-align: center;">(19.489) (-1.490) (.878)</p> $R^2 : ..820$ $F : 236.57$ $Sig : .000^*$

Source: Field Survey, 2011.

the co-efficient it is good fit, test statistics also supports it. Household size is significant at 1 percent level of significance, test statistics also supports it. As the household size rise by one unit the PCC falls by Rs.323.12. Similarly as the education rise by one year, PCC will decrease by Rs.163.919. Here coefficient of multiple determination (R^2) is 90.4% where as adjusted R^2 is 89.2 %. Here F value is 81.246. About the t test, it is 5.695 for income, -3.604 for household size and -2.560 for education and significant for all at 1 percent level of significance. The linear consumption function is significant at 1 percent of significance and good fit.

As compared to rural consumption function, urban consumption function is different than it. From table 4.7 intercept term has value of 3291.75. As one unit of income rise PCC will increase by 0.46 paisa, same as *Psychological Law of*

Consumption put forward by J. M. Keynes. It is significant at 1 percent level of significance and test statistics also support it. Similarly as the household size increased by one unit, it reduces the PCC by Rs.155.582, it is also significant at 1 percent level of significance and test statistics also supports it. Lastly as the education rise by one level, education will also increase by Rs.11.918, In term of significance, income and household size are significant at 1 percent level of significance, coefficient of multiple determination (R^2) is 76.3 percent and adjusted R^2 are 75.7. From the point view of regression it is significant, F value is 134.867 and t statistic for PCI is 11.213, household size is -3.806 and for education 0.530 and significance for PCI and household. As a whole linear urban consumption function is significant at one percent level of significance and the model is good fit..

In overall, consumption function is significant, like rural and urban here. Income plays an important role here. Overall linear consumption function in Table 4.7 reveals that it is significant at 1 percent level of significance. Here 1426.70 is the intercept term, the estimate of co-efficient which is attached with PCI express that as the one unit of PCI rise, PCC increase by 0.625 paisa, test statistics also supports it and significant at one percent level of significance. Same happens in education as the one level of education rise PCC will also increase PCC by Rs.21.14, but it is not significant. But it is quite different in household size as the household size increases by one member the amount of PCC will decrease by Rs.54.851. About the significance, only income is significant at one percent level of significance, but education and household size are not. As a whole overall linear consumption function is statistically significant at one percent level of significance. Here t-test for PCI is 30.367, for household size is 0.803 and -0.125 for education and only significant for income. About its F –test it is 236.573. Here coefficient of determination (R^2) is 82.0 percent.

4.6.2 Estimating consumption function (log linear form)

In this section consumption function log is taken to all the independent variables as well as dependent variable. Log linear consumption function express

consumption function in elasticity form, which mean how much change will bring to dependent variable by in 1 percent change in independent variable.

Table 4.8 reports that in log linear consumption function intercept term is 2.431. Here one percentage increase in PCI brings 0.386 percent increment in PCC. It is significant at one percent level of significance. About the effect of household size, one percentage increase in household size brings fall 0.507 percent in PCC. Similarly one percent increase in education will reduce PCC by 0.003 percent. As a whole log linear consumption function is significant at one percent level of significance, with F test value 159.30. The t-test is 2.785 for PCI, -3.642 for household size and 0.022 for education and significant for PCI household size and PCI and household size have 1 percent level of significance but not by education level. Overall it is model fit. Similarly coefficient of determination (R^2) is 94.8 percent and adjusted R^2 is 94.2 percent.

Table 4.8: Result of Log Linear Consumption Function

Area	Function
Rural	$\text{LogPCC}_R = 2.431 + \text{Log}0.386\text{PCI}^{***} - \text{Log}0.507\text{HHSize}^* - \text{Log}0.003\text{Edu}$ (2.785) (-3.642) (0.022) $R^2 : .948$ $F : 159.299$ $\text{Sig} : .000^*$
Urban	$\text{LogPCC}_U = 1.375 + \text{Log}0.643\text{PCI}^* - \text{Log}0.91\text{HHSize}^* - \text{Log}0.013\text{Edu}$ (13.208) (-2.676) (-0.341) $R^2 : .825$ $F : 198.331$ $\text{Sig} : .000^*$
Overall	$\text{LogPCC}_O = 0.403 + \text{Log}0.873\text{PCI}^* + \text{Log}0.022\text{HHSize} - \text{Log}0.006\text{Edu}$ (30.367) (0.803) (-0.125) $R^2 : .906$ $F : 499.170$ $\text{Sig} : .000^*$

Source: Field Survey, 2011.

Note: *, ** and *** indicate 1, 5 and 10 percent of significance

In urban sector log linear consumption is different than rural log linear. Here intercept term is 1.375. As one percentage of PCI rises it will increase the PCC by 0.643 percent, it is significant at one percent level of significance and test statistics also supports it. Similarly rise in 1 percent of household size will decrease PCC by 0.91 percent and rise in level of education by one percentage will also reduce the PCC by 0.013 percent. As a whole log linear consumption function is significant at

one percent level of significance with F test value 198.33. For PCI and household size t-test is significant but not for education level. Here t-test For PCI is 13.20, -2.67 for household size and -0.341 for education level. Overall it is model fit and significant at one percent level of significance. About the coefficient of determination it is 82.5 percent (R^2), adjusted R^2 is 82.1 percent.

Overall log linear consumption function also has different pattern. Here intercept term is 0.403. As the increase in one percentage of PCI it makes increase in PCC by 0.873 percent, it is significant at one percent level of significance and test also supports it. In household size, rise in one percentage will raise consumption by 0.022 percent. Similarly one percentage increment in education level will raise 0.006 percent in consumption. Here t-test is only significant for PCI whereas Household size and Education level were not significant, it is 30.367 for PCI, 0.803 for Household size and -0.125 for education level. In overall it is model fit and significant at one percent level of significance with 236.50 of F test value. Here coefficient of determination is 90.6 percent and adjusted R^2 is 90.4 percent.

4.6.3 Estimating consumption function with dummy variable

In regression analysis, a dummy variable (also known as an indicator variable) is one that takes the values 0 or 1 to indicate the absence or presence of some categorical effect that may be expected to shift the outcome. In this study remittance is used as dummy variable

Table 4.9: Result of Consumption Function with dummy variable

Area	Function
Rural	$PCC_R = 5388.26 + 0.436PCI^* - 321.36HHSIZE^* - 193.55Edu^{***} + 38.37Rem$ (5.588) (-2.506) (-3.484) (0.142) $R^2 : .904$ $F : 58.64$ $Sig : .000^*$
Urban	$PCC_U = 3308.43 + 0.468PCI^* - 150.51HHSIZE^* + 10.35Edu - 76.01Rem$ (11.195) (-3.615) (0.457) (-0.684) $R^2 : .763$ $F : 100.84$ $Sig : .000^*$
Overall	$PCC_O = 1440.97 + 0.618PCI^* - 60.09HHSIZE + 21.95Edu + 66.60Rem$ (18.647) (-1.582) (0.908) (0.582) $R^2 : .820$ $F : 176.76$ $Sig : .000^*$

Source: Field Survey, 2011.

Note: *, ** and *** indicate 1, 5 and 10 percent of significance

Table 4.9 shows about the linear consumption functions with dummy variable of rural, urban and overall Pokhara. In consumption function 5388.267 is the intercept term. The estimate of co-efficient term which is attached with PCI explains that as one unit of income rise will increase PCC by 0.436 paisa. It is significant at one percent level of significance. Household size is also significant at one percent level of significance, as the household size rises by one unit the PCC decrease by Rs.321.361. Similarly as the education rise by one level, PCC will decrease by Rs.193.554. it is significant at one percent level of significance. Similarly as the remittance goes by Rs.1 than PCC also increases by Rs.38.376. Here coefficient of determination (R^2) is 90.4 percent. F value is 58.643. The t test is 5.583 for income, -2.506 for household size, -3.484 for education and 0.142 for remittance.

Table 4.9 shows, linear consumption function of Urban Pokhara with dummy variable. Here 3308.434 is the intercept term. The estimate of co-efficient which is attached with PCI explains that as the one unit of income rise PCC will rise by 0.468 paisa. It is significant at one percent level of significance. Household size is also significant at 1 percent level of significance. As the household size rise by one unit the PCC will decrease by Rs150.515. Similarly as the education rise by one level, PCC will go down by Rs.10.350. Similarly as the 1 unit of remittance rises, the PCC level decreases by Rs.76.018. Here coefficient of determination (R^2) is 76.3 percent. F value is 100.84. About the t test, it is 11.195 for income, -3.615 for household size, 0.457 for education and -0.684 for remittance.

Table 4.9 reports, linear consumption function of overall with dummy variable. Here 1440.973 is the intercept term. The estimate of co-efficient term which is attached with PCI explains that as the one unit of income rise, PCC will increase by 0.618 paisa. It is significant at one percent level of significance. As the household size rises by one member the PCC decrease by Rs.60.095. Similarly as the education rise by one level, consumption rises by 21.950 amounts. Similarly as the one unit of remittance rise, the PCC also increase by Rs.66.601. Here coefficient

of determination (R^2) is 82 percent. F value is 172.762. About the t test, it is 18.647 for income, -1.582 for household size, 0.908 for education and 0.582 for remittance.

From the linear n log linear information it is clear that income is the major factor which affect consumption expenditure. It is also clear that there is presence of consumption even when income is negative. The consumption function supports psychological law of consumption put forward by Keynes. From the table 4.9 it is clear that remittance has no effect on consumption expenditure.

4.7 Fitting the Consumption Curve

Like Keynes, consumption function curve shows the relation between income and consumption. With the help of consumption function curve we can find the relationship of consumption expenditure.

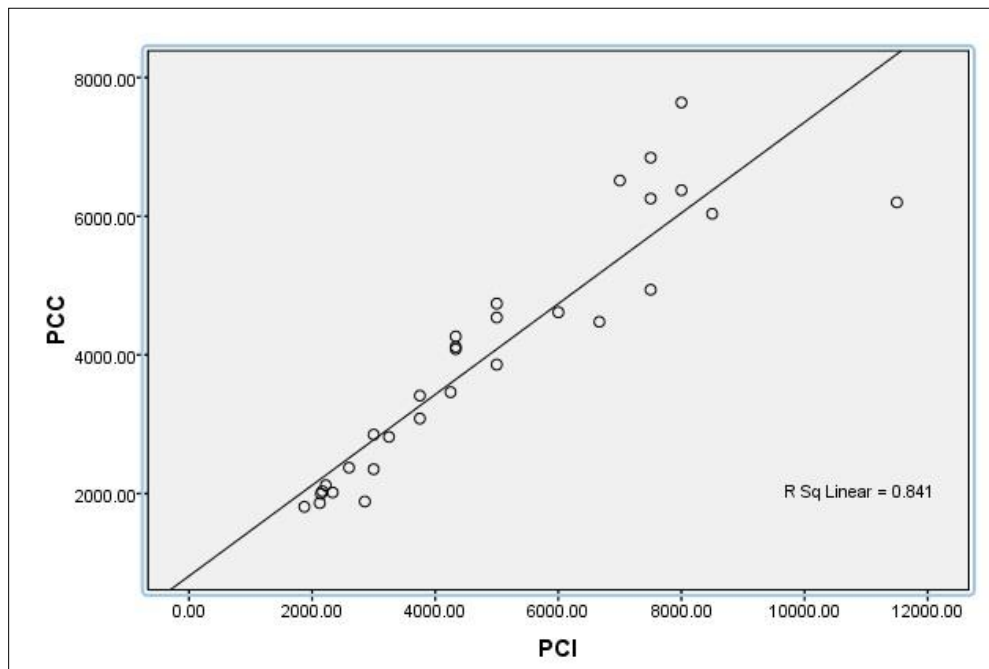


Figure 4.3 Consumption Pattern in Rural Pokhara

4.7.1 Rural consumption curve

Figure 4.4 illustrate the relation between Per Capita Consumption and Per Capita Income. Here X-axis represents PCI and Y-axis represents PCC. Here consumption function line constantly moves up, showing rise in PCC as PCI rises. As PCI increases from Rs.2000 to Rs.4000 consumption also increase. Further increase in PCI from Rs.4000 to Rs.6000 brings increment in PCC. The figure proofs psychological law of consumption.

4.7.2 Urban consumption curve:

Figure 4.5 illustrate the relation between consumption and income in the Keynesian framework. With reference to this diagram, OC is the minimum level of consumption. It must be incurred even when PCI is zero, because survival needs consumption. Consumption function line PCC constantly moves up, showing rise in PCC as PCI rises. Urban consumption function curve is slightly different than rural consumption function curve. Here it starts from positive level.

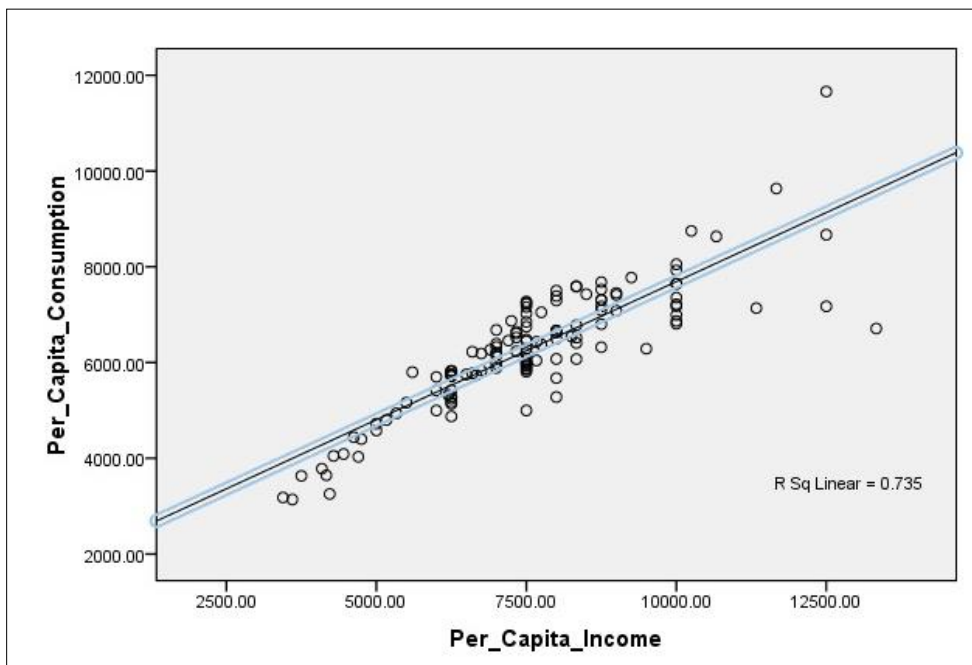


Figure 4.5 Urban Consumption Curve

4.7.3 Overall consumption curve

Figure 4.6 illustrates the relation between consumption and income in the Keynesian framework. With reference to this diagram, OC is the minimum level of consumption. It must be incurred even when PCI is zero, because survival needs consumption. Consumption function line PCC constantly moves up, showing rise in PCC as PCI rises. Urban consumption function curve is slightly different than rural consumption function curve. Here it starts from positive level.

The consumption curve of rural, urban and overall respondents are similar to Keynes consumption curve of psychological law of consumption. And states that consumption rises as the income increase.

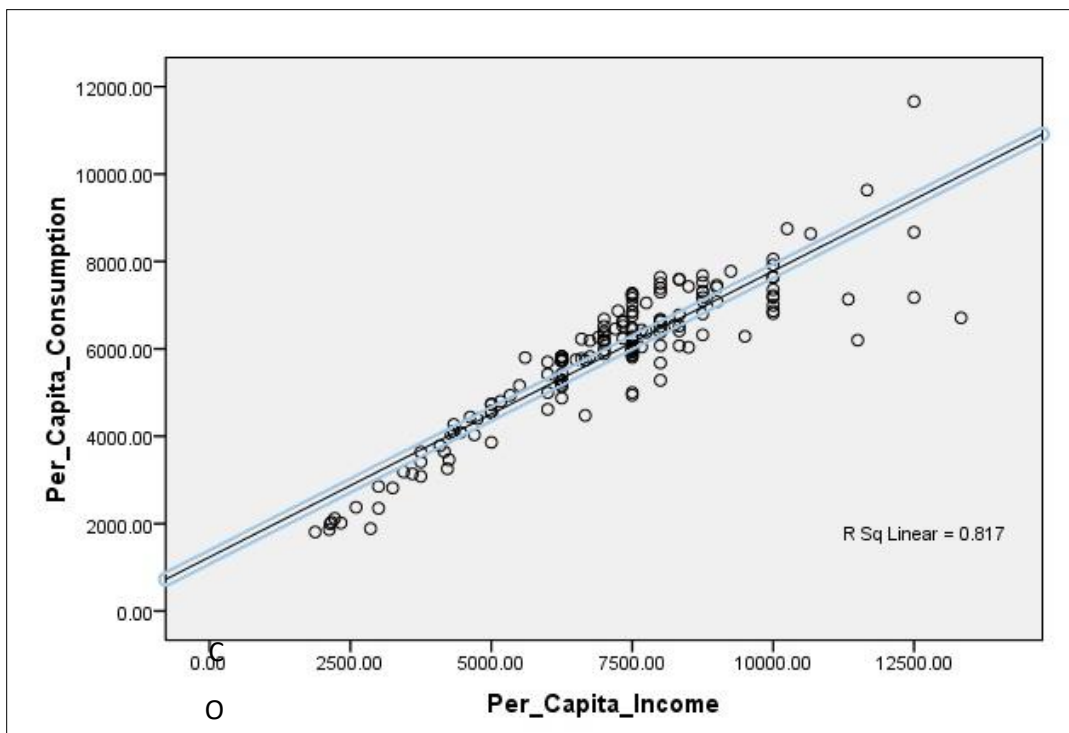


Figure 4.6 Overall Consumption Curve

4.8 Comparing Present Study with NLSS 2010/11

In this section the finding of present study is compared with the finding of NLSS 2010/11. Here pattern of consumption expenditure of rural, urban and overall will be compare.

Comparison on consumption pattern

Consumption expenditure on the category: food, non-food and housing expenses are different in NLSS with compare to present study. According to NLSS 2010/11 rural household spent 65.6 percent on food, 25.4 percent on non-food and 9 percent on housing expenses. But, in this study the pattern is different than NLSS, 50.86 percent consumption on food expenses, 30.89 percent on non-food and 18.85 percent on house expenses. NLSS 2010/11 information reveals that, in food item rural respondents spent 14 percent more than present study. Similarly in housing expenses rural respondents spent 9 percent less than present finding and 5 percent less in non-food items respectively.

Comparing urban respondents of NLSS and present study, it was found that urban respondents of NLSS 2010/11 spent 46 percent of consumption expenditure on food, 35.4 percent on non-food and 18.6 percent on housing expenses. But in present study it was found that urban respondents spent 44.1 percent on food, 29.93 percent on non-food and 26.97 percent on housing expenses.

In overall, respondents of NLSS 2010/11 spent 62 percent of consumption expenditure on food, 27 percent on non-food and 11 percent on housing expenses. But, in present study it is found that the respondents spent 44.8 percent on food, 29.07 percent on non-food and 26.12 on house expenses.

4.9 Major Finding

- There is high number of people living in medium income group, that is, 64.4%. In age group 86.2% of people are between 25-50 years. About 50%

people are employed in foreign land. About 71.2% household have small number of family members.

- People of Rural Pokhara do more expenditure on food items than that of Urban Pokhara. Similarly urban people do more expenditure in house expenses than rural people of Pokhara.
- There is mean difference in PCC between rural and urban household. For rural household it is Rs.3986.07 and for urban household it is Rs.6282.96.
- Income and Household size are the factors which affect consumption significantly in Rural and Urban area. Similarly occupation does not affect consumption.
- In Rural Pokhara one unit rise in PCI affects consumption by 0.435 units. In Urban it raise by 0.465 units and in overall consumption rise by 0.623 units.
- In Rural Pokhara one unit rise in household size will reduce the consumption by 323.125 units. In Urban it reduces by 155.582 units. in overall it reduces by 54.851.
- Increase in one level of education will reduce consumption by 193.919 units in Rural Pokhara. In Urban it increases consumption by 11.918 units. In overall it raise by 21.144 units.
- In Rural Pokhara, increase in one percentage in PCI will raise consumption by 0.386%. Similarly, in Urban Pokhara it raise by 0.643%. Further, in Overall it rises by 0.873%.
- In Rural Pokhara, rise in 1% in household size will decrease the consumption by 0.507%. Similarly in Urban Pokhara consumption will reduce by 0.91%. Further, in Overall consumption will raise by 0.022%.
- Increment in 1% in education level will decrease the rural consumption by 0.003%. Similarly, consumption will decrease in Urban Pokhara by 0.013%. In Overall consumption reduce by 0.006%.
- Use of dummy variable brings slight change in regression analysis. In Rural Pokhara, one unit rise in PCI will raise the consumption level by 0.436 units.

In Urban Pokhara consumption will rise by 0.468 units. In Overall consumption will rise by 0.618 units.

- In Rural Pokhara one unit increase in remittance will raise the consumption by 38.376. In Urban Pokhara consumption will rise by 76.018 units. In Overall consumption will rise by 66.601 units.
- Consumption function curve in Rural Pokhara starts from negative. In Urban and Overall consumption function curve starts from positive point, which indicates that, there is presence of consumption even when there is no income with the consumer.

CHAPTER V

SUMMARY AND CONCLUSION

5.1 Summary

The present study is about pattern of consumption expenditure of rural and urban households of Pokhara. The objectives of the study are nature and pattern of consumption expenditure, estimate and test the consumption function and factors which determines consumption expenditure. To fulfill the objectives four different hypotheses are set for test. In methodology part casual comparative research design research design had been chosen for this study and stratified sampling. Primary data are the major source for the study. For the data processing regression models were made and they are analyzed through SPSS-16 software.

In major chapter of the study respondents were categorized on the basis of different characteristics e.g. income, age, level of education, ethnicity, household size, place of residence and occupation. In next part descriptive statistics and mean difference are done with the help of mean difference test and found difference in the mean of rural and urban respondents. It was found income and household size were the major factors which affect consumption expenditure with one percent one significance. Similarly, in next step pattern of consumption expenditure in rural, urban and overall were done with the help of pie chart and found there is difference in the pattern of consumption expenditure in different categories i.e. food, non-food and housing expenses. It also focus that food expenses is higher in rural area and housing expense is higher in urban area. Similarly, in this part linear regression, log linear regression and linear regression with dummy variable were estimated and all were them found statistically significant. Similarly, the consumption function curve were found positive, which implies presence of consumption even when income is negative and also similar to Keynes consumption function curve. Lastly, the last part compared the present study with NLSS 2010/11 and found higher PCC.

5.2 Conclusion

From the present study it was found there is difference in mean of rural and urban per capita consumption expenditure, per capita food expenditure, per capita non-food expenditure and per capita housing expenditure.

Income and household size are the major factors which affect per capita consumption expenditure. Similarly occupation category does not affect per capita consumption expenditure.

Rural respondents do more consumption expenditure on food and non food item than urban respondents. Opposite to this urban respondents do more consumption expenditure on housing expenses than rural respondents

Consumption expenditure increases as the income rises in rural and urban. The consumption function curve is positive for rural and urban and overall.

The effect of household size has negative effect on consumption expenditure. As one member of household raises consumption expenditure decreases in both rural and urban. From the present study it was found that, as the respondent's income raises consumption expenditure also increase. It is positive for both rural and urban respondents. It is similar to the Psychological Law of Consumption, which was put forward by J. M. Keynes.

The effect of education level in consumption expenditure is different to both rural and urban respondents. In linear form the effect is negative for rural respondents, but positive for urban respondents. Similarly in log linear or elastic form it is negative for both urban and rural respondents.

The effect of remittance on consumption expenditure is negative for both rural and urban respondents. But, in overall it is positive.

At last, comparing present study with NLSS 10/11, it was found that there is difference in the pattern of consumption expenditure of NLSS and present study.

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Author

1. Interviewer Name:
2. Name of household head:
3. Village/Locality:
Ward/Sub-ward:
4. Total HH Member (Usual Residents):
5. Date of interview: