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Macroeconomic and demographic determinants of household expenditures in OECD countries

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Abstract

Household expenditures are one of the indicators of individual and social welfare. Analysis of household expenditure dynamic has showed a significant change in the period of economic crisis: during the global economic crisis and the recession in Europe. Change of household expenditures occurs under the influence of such macroeconomic factors as disposable income of households, government spending, inflation, interest rate that should be considered in public policies. The population and the education level of population are also significant demographic factors that influence consumer spending and household spending on health.

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1. Introduction

Household expenditures are closely interrelated and reflect the notions of well-being and wealth. The level of household expenditures indicates the level of economic system development as a whole. This raises the question of what factors influence the magnitude of household expenditures in different countries. In this regard, it is necessary to distinguish exogenous factors dictated by the state of a particular country economy and of world economy in general, so as demographic factors, which determine household structure and composition.

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The analysis of literature has showed that researches that try to identify factors influencing on household spending, are aimed at investigating of the relationship between separate macroeconomic, environmental and cultural factors. The economies of certain countries are often chosen as the object of research.

As the macroeconomic factors affecting household consumption, the indicators related to the functioning of the economy as a whole and conducted public policy are mentioned. For example, Berben and Brosens (2007) analyze the impact of government debt on private consumption in OECD countries and conclude that fiscal policy is less effective at higher levels of government debt. Verter and Osakwe (2014) allocate net disposable income, cross-cultural dynamics, inflation rate, and saving rate as factors influencing household spending in Czech Republic. The researchers have proved the relationship between household spending and social globalization index. Parker (1999) refutes, basing on microdata of household surveys in the United States, basic life-cycle permanent-income hypothesis, suggesting that predictable changes in income have no effect on the growth rate of consumption expenditures. Thus, even expected changes in social security taxes lead to significant changes in the structure of household consumer spending.

A number of studies are based on financial approach to household spending determinants formulation. Ludwig and Sløk (2004) analyze the impact of stock prices changes on consumption in countries with a market-based financial system comparing with countries that have a bank-based financial system. De Bonis and Silvestrini (2012) showed that both net financial wealth and real wealth have a positive effect on consumption.

Separate studies are devoted to the analysis of certain types of household expenditures - health expenditure (Newhouse (1977), Hitiris and Posnett (1992), Matteo and Matteo (1998), Karatzas, 2000). Therefore, Di Matteo (2005) on the example of Canada and the United States highlights age distribution, income and time using as macroeconomic factors affecting health expenditure in private sector. The results of the study indicate that age distribution and income have small share in changes of health expenditure, the main factor is time using, which explains approximately two-thirds of the increase in health expenditures. Health expenditure model, built by Narayan and Narayan (2008), illustrates the necessity of considering environmental factors that impact on health expenditure. In addition to the traditionally considered real per capita income, the researchers have included in the model nitrogen oxide emissions, sulphur oxide emissions and carbon monoxide emissions.

Carroll et al. (2014) have developed a macroeconomic model based on microfoundations and suggest that the annual marginal propensity to consume is much larger than the 0.02-0.04 range implied by commonly-used macroeconomic models. Our model also predicts that the aggregate MPC can depend on how the shock is distributed across categories of households (low-wealth versus high-wealth households).

The purpose of this study is to identify macroeconomic and demographic factors affecting household expenditures in OECD countries. Empirical data for building models are official OECD data for 34 countries in 2012. The main method of research is the analysis of statistical information and the construction of multiple regression models based on OLS.

2. Research methodology

We test which factors have a significant effect on total household spending, and some its types (final consumption expenditure). Therefore, in the study expenditures of households are represented by the following indicators:

- Household spending, Total, Million US dollars (Household spending). This indicator reflects the amount of final consumption expenditure made by resident households to meet their everyday needs, such as: food, clothing, housing (rent), energy, transport, durable goods (notably, cars), health costs, leisure, and miscellaneous services. It is typically around 60% of gross domestic product (GDP) and is therefore an essential variable for economic analysis of demand (OECD 2015b);
- Household final consumption expenditure, current US\$ (Household final consumption expenditure). According to World Bank and OECD methodology it is the market value of all goods and services, including durable products, purchased by households. It excludes purchases of dwellings but includes imputed rent for owner-occupied dwellings. It also includes payments and fees to governments to obtain permits and licenses (World Bank 2015).

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