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## A time series analysis of macroeconomic determinants of household spending in the era of cross-cultural dynamics: Czech Republic as a case study

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### Abstract

The paper investigates selected macroeconomic variables where are seemingly influencing household spending in the Czech Republic in the present era of evolving cross-cultural interactions from 1993–2012. Based on the estimated regression model, it is plausible to state that net disposable income, cross-cultural dynamics, inflation rate, and saving rate as a proportion of disposable household income impact significantly on household spending. Moreover, the Granger causality analysis provides evidence of a feedback relationship between household spending and social globalization index. The results equally indicate bidirectional causality between saving rate and household spending as well as between the inflation rate and household spending.

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### 1. Introduction

Globally, household income, consumption and wealth are regarded among the key determinants of well-being of the citizens (Slesnick, 2000; Stiglitz, Sen, & Fitoussi, 2009; Gerstberger & Yaneva, 2013), and the level of households economic behaviour plays a vital role in national macroeconomic determinants. The major economic function of the households in a given country is that of consumption. Moreover, in the process of their income generation and expenditure, households also indirectly play the role of income redistribution through payments of income taxes and social contributions to governments (Hronova & Hindls, 2013), and donations to non-profit organizations.

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In the today's era of globalization, factors that determine the household final consumption expenditure do not lie only in local markets but also internationally. For instance, the development of the flows of cultural goods like the media and films, notably Hollywood across countries on a daily basis has been changing the patterns of consumer spending, arguably at the cost of traditional or local cultures (Bourdieu, 1998). Information dissemination and ideas from the mass media do not only reflect in today's social world, but it is also contributing to the shape, and is central to the changes in the global lifestyle and consumer patterns (Giddens, 1991). This change in consumption patterns is partly because individuals vary in their taste for cultural goods, hence more likely to consume other cultural goods leading to cultural diversity (Janeba, 2004).

The discussion of globalization before 1960 was mainly economic and later political and technological forces. However, since 1960 due to worldwide socio-cultural changes, social indicator has been discussed and considered as among the driving forces of globalization (Dreher, 2006; Dreher, Gaston & Martens 2008).

Some researchers have empirically investigated and identified some connections between household spending and social-cultural trade, income, price and other variables to countries in recent time. For instance, Rauch, & Trindade (2009) examined the relationship between trade and cultural diversity. Their results showed that increase in the share of consumption network externalities across nations might possibly affect domestic market, so increased travel between countries will increase the cultural market share and household spending. Fuchs & Lorek (2000) examined the effects of globalization on sustainability of household consumption in advanced economies. They found out that globalization influences household consumption expenditures in products like foods, technology, energy use, mobility and other domestic household consumptions in countries.

Hollis (2009) examined the importance of culture in competition between global and local brands of various products. Investigating the opinions of consumers from eight different countries; he concluded that global product brands were more successful in most of the surveyed attributes. His results also showed that product brands that have more attributes of local culture are more likely to be sold than brands that are purely foreign. He argued that firms like Cocoa-Cola and MacDonald have a huge global market share because they have built and maintained long term relationships with local consumers across the globe, and they have integrated their products into the local culture.

Konya & Ohashi (2007) examined the relationship between globalization and aggregate consumption patterns in OECD countries. They found out that increased in trade and foreign direct investment (FDI) have contributed to the convergence of consumption patterns within OECD countries. Prices and income play major roles in explaining the consumption patterns in countries. The integration of local markets into the global market and the progress in ICT has over the years been reshaping consumption patterns in the developed countries. In the same direction, Domazet, Sendić & Alić (2012) examined the existence of household expenditure convergence in the EU-27 countries, using the absolute  $\beta$ -convergence method. They found evidence that EU member countries had attained a high level of consumer expenditure convergence within the study period.

Mohammad (2010) tried to explore both long run and short run determinants of trade deficit and household spending with reference to Pakistan, using Johansen Co integration and ECM approaches. His findings suggested that domestic household spending is negatively correlated and significantly affect the trade deficit in the country. Arguably, an increase in the household spending might cause an increase in the trade balance in Pakistan. Gozgor (2013) investigated stochastic properties of the consumption-income ratios in eleven central and eastern European countries (CEE), Czech Republic included. He found that external shocks had effects on the consumption-income ratios in Croatia and Slovenia, and the main hypothesis was proved only for these countries. He found that there was a mean reversion in the other nine out of eleven CEE economies. His results provide statistically significant support for the existing hypothesis that the consumption-income ratio is a mean-reversion in the Czech Republic, Bulgaria, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, and Slovakia.

Mallik & Pradhan (2012) have attempted to determine if there is a causal relationship between per capita consumption expenditure and personal income in India using the Granger Causality method. They found a unidirectional causality running from per capita consumption expenditure to personal disposal income in the country. Dvořáková & Seidler (2012) examined how the change of wealth, of households which was proxied for housing prices and stock market prices influences households' consumption in the Czech Republic using VAR and VEC approaches. They found a positive effect of both housing and stock market wealth on household spending. Arguably, the household would spend more when the return on their investment (income) increases and vice versa.

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