
UNIT 10 CONSUMPTION AND SAVING BEHAVIOUR OF THE ECONOMY

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10.1 OBJECTIVES

You are already familiar with the concepts of consumption and consumption expenditures, and savings. These concepts were introduced in Unit 2. The objective of the present unit is to further explain these concepts. After going through this unit, you will be able to:

- differentiate between the intermediate and final consumption;
- distinguish between household and government consumption expenditures;
- describe consumption behaviour in India over the past years; and
- discuss meaning of saving, types of savings, and saving behaviour in India over the past years.

10.2 INTRODUCTION

Consumption by definition means what has been used up for satisfaction of wants. Some define consumption as destruction of utility of a commodity. Looking from another angle, consumption is that part of income which has been used up by persons, individually or collectively for the purchase of goods and services for satisfaction of wants.

In fact the income of an individual or a household can be split up into (i) consumption expenditure, and (ii) saving. A part of the national income generated is spent on consumption. That part of the income which is not spent on consumption is taken to be saved.

What holds, in splitting the individual income into consumption and saving, with marginal modifications, also holds for splitting the national income into consumption expenditures and savings. This will become more clear as we proceed in the present unit.

10.3 CLASSIFICATION OF GOODS AND SERVICES

Goods and services produced by the producing units are used by different categories of users. The users are households, enterprises and general government. With the households we also club the 'private non-profit institutions serving households (PNPISH)', popularly known as NGOs (Non-Government Organisations) in India. The goods and services used by these groups are classified into three categories : (1) consumer goods and services (2) intermediate goods and services and (3) capital goods.

10.3.1 Consumer Goods and Services

These goods and services purchased by the households and general government. Consumer goods can be further classified into durable or non-durable. Durable consumer goods are those which can be used a gain and again. Some examples of durable goods used by the households (including NGOs) include cars, VCRs, TV sets, refrigerators, washing machines, air-conditioners, etc. durable goods are those which can be used only once. Some examples of such goods consumed by households and general government include food items, soaps, oils, ink, pencils, writing paper, petrol, etc. These goods and services form part of their final consumption expenditure. Durable and non-durable goods are also called durable-use and single use goods respectively.

10.3.2 Intermediate Goods and Services

Goods and Services purchased by production units from other production units during a year and completely used up in production process during the same year.

Intermediate goods and services. This include purchases of all non-durable goods and services by production units like raw materials, electricity, water, expenditure on repairs and maintenance, etc.

10.3.3 Capital Goods

Capital goods include all durable goods acquired by production units for use in production and net addition to the stocks during the year. All durable goods like factory buildings, machines, plants, equipments, roads, dams, bridges, aircraft, trucks, taxis, etc., are the examples of capital goods. Net addition to the stock of raw materials, finished goods and semi-finished goods is also treated as capital goods.

Having classified goods and services into three categories (i) consumption goods and services , (ii) intermediate goods and services and (iii) capital goods, let us explain the term consumption in more detail.

10.4 CONSUMPTION

10.4.1 Meaning

Consumption refers to an activity leading to satisfaction of human wants. All goods and services acquired with the intention of satisfying wants are classified as consumer goods and services. The expenditure incurred on these goods and services is called consumption expenditure. It is not the nature of the good but the use of the goods that determines whether a good or a service is a consumer good or not. Bread purchased by a household is acquired for satisfaction of hunger and, therefore, it is a purchase for consumption good. Bread purchased by a restaurant is acquired to produce other goods and, therefore, not a consumer good but a producer good. Services of an electrician rendered to a household are consumer services while those rendered to a factory are producer services.

10.4.2 Sources of Consumption Expenditure

There are three sources of consumption expenditure in a country.

- 1) One source is *households* or individuals who acquire goods and services for satisfaction of wants of family members.
- 2) Another is *Private Non-profit Institutions Serving Households (PNPISH)* who provide free services to households on collective basis. Some examples of such institutions are found in private charitable societies running schools, dispensaries, places of worship etc., neighbourhood associations, trade unions, and so on.
- 3) The third source is *general government* which runs the administration of the country on behalf of the people and spends on goods and services for meeting collective wants of the people. Such an expenditure is on police, courts, military, maintenance of public properties, sanitation, charitable hospitals, schools, colleges, training institutions and many more such items.
- 4) The sum total of consumption expenditure in the country is taken as the sum of such expenditures incurred by households, private non-profit institutions serving households and general government.

10.4.3 Problems in Estimating Consumption Expenditure

We have pointed out the distribution between single-use and durable use because it creates problems in estimation of consumption expenditure. Single-use goods do not create much of a problem because most of these are used up for consumption in the year in which they are purchased. Durable use goods create accounting problems. Take, for example, an item of furniture bought in a particular year by a household.

This item of furniture will actually be used for a number of years. So expenditure on this must also be spread over the number of years. If this costs Rs.500 and its use life is 5 years, the consumption expenditure in a particular year should amount to only Rs.100. What is true about the item of furniture is true about how many items like TV set, cars, transistors, books, expensive clothes, etc. These items create problems in estimation of consumption expenditure. To estimate yearly consumption value of a durable consumer, the estimator must have data about quantity, quality, life span, etc. of such goods. Such type of data is not available in practice. As such, the estimators have no option but to treat such goods as entirely used up during the year in which they were purchased. The estimators thus, account for the whole of such expenditure in the year in which the durable use goods were purchased. As such durable use goods are deemed to be consumed in the year of purchase.

Check Your Progress 1

- 1) Explain what do you mean by intermediate goods.

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- 2) State whether the following items are intermediate, capital or consumer goods.

Goods	Type
1) A Taxi	
2) A personal car	
3) Flour used in the household	
4) Maida used by a baker	
5) Fridge used by a doctor in his clinic	
6) Wheat in a flour mill	
7) Steel used in a factory.	
3) Explain the meaning of a consumer good.	

10.5 CATEGORIES OF CONSUMERS

Demand for final consumption comes from the households, PNPISH, and General Government. There are three categories of consumers in an economy:

- i) General Government;
- ii) Households; and
- iii) Private Non-profit Institutions serving house holds .

10.5.1 Government's Final Consumption Expenditure (GFCE)

Meaning

The government incurs expenditure on producing services and provides them free to the people of the country. The government provides services such as defence, law and order, education, public health and other social services. The value of such services provided free to the people constitutes GFCE.

Estimation

It should be noted that the value of final consumption by the government is not equal to the cost of services at which these are provided to the citizens, but it is equal to their cost to the government. Generally speaking, a welfare government does not provide services at their full cost to the citizens. These are sold at a price which is far less than their cost to the government. For example, children get education in government schools by paying a nominal fee. The actual cost may be many times higher than the fee paid. Similarly, government accommodation is available to its employees at nominal rent which is far lower than the market rent.

GFCE is taken as equal to its cost to the government. The cost to the government is taken as equal to :

GFCE = Compensation of employees paid by general government

- + Intermediate Consumption
- + Consumption of fixed capita
- + Indirect Tax
- Sales
- Own account capital formation.

Intermediate consumption of the government includes purchases of non-durable goods and services and net current transfers from abroad. Compensation of employees includes wages and salaries in cash and in kind. The sale of goods and services includes all payments made by individual households to the government at full or the nominal cost.

The intermediate consumption expenditure of the government also includes direct purchase of goods and services made abroad on Current Account. The government has to make purchases non-durable goods and services abroad for its diplomatic staff.

10.5.2 Households' Final Consumption Expenditure (HFCE)

Resident households make purchases both from within the domestic territory of the country and abroad. Therefore,

HFCE = **Net** expenditure on consumption by residents in the domestic market

- direct purchases made abroad

Net expenditure in the above equation means expenditure on new goods less sale of second hand goods.

The goods and services purchased by households for final consumption can be classified into the following categories:

1) **Consumer Durables**

The consumer goods which have a life of more than one year are classified as durable goods. These can be repeatedly used over a long period. A television set is a durable consumer goods. It lasts for a number of years. A fan is a durable good which provides utility over the years to a household.

2) **Consumer Non-durable**

Households also consume non-durable goods such as food, drinks, medicines, fuel, etc. Normally, the goods which have a life of less than one year are treated as non-durables.

3) **Consumer Services**

Final consumption of households includes different kinds of services such as transport, telephone, telegraph, health care, education, recreation at clubs and theatre, etc. There is no time-lag between the production and consumption of a service. It is produced and consumed instantaneously.

10.5.3 Final Consumption Expenditure of Private Non-Profit Institutions Serving Households (FCE-PNPISH)

In the domestic territory of a country certain non-profit institutions also operate to serve the households. These include institutions like charitable trusts, charitable hospitals, social organisations, cultural organisations, trade unions, etc. These institutions do not operate for profit motive, but they are organised to serve households. These non-profit organisations do produce goods and services but do not sell them in the market for profit. These also employ the services of certain factor inputs. The final consumption expenditure of the non-profit organisations is calculated in the same way as that of general government. It is as follows:

- FCE - PNPISH = Compensation of employees paid
- + Intermediate Cost
- + Consumption of fixed capital
- + Indirect Taxes
- Sales
- Own account fixed capital formation

Check Your Progress 2

- 1) Name the three categories of final consumers.
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- 2) Government final consumption expenditure equals to =
- 3) Households final consumption expenditures equals to =
- 4) Draw a distinction between durable consumer goods and non-durable consumer goods. Give examples of both.
- 5) Explain the meaning of services with the help of a few examples.

10.6 CONSUMPTION EXPENDITURES IN INDIA

In an earlier lesson we have discussed how the national disposable income is estimated. National disposable income (NDI) of a country is calculated as follows :

$$\text{NDI} = \text{NNP}_{\text{mp}} + \text{Net current transfer from the rest of the world.}$$

10.6.1 Distribution of Income between Consumption and Savings

The consumption and saving of a society are seen only in relation to national disposable income. The consumption behaviour in India has been presented in Table 10.1 in relation to the disposable income of India.

You will find in (Table 10.1) that total consumption expenditure in 1980-81 formed about 87 per cent of the disposable income. Of this private final consumption expenditure was about 77 per cent and GFCE about 10 per cent of disposable income.

The table 10.1 also reveals that over the period consumption expenditures as a percentage of the disposable income has declined, Government's consumption expenditures as a percentage to the disposable income has somewhat increased. PFCE, on the other hand, has come down. As compared to 1980-81, GFCE as a percent of disposable income in 1994-95 increased from 10.1% to 12.34%; that of PFCE declined from 76.94% to 70.06%.

Table 10.1: Distribution of National Disposable Income into Consumption Expenditures (at Current Prices)

(Rs. Billions) (1 Billion = 100 crores)

Year	Total Consumption Expenditure			Disposable Saving Income	
	GFCE	PFCE	Total		
1980-81	131 (10.1)	993 (76.9)	1124 (87.0)	167 (13.0)	1291 (100.0)
1990-91	618 (13.1)	3324 (70.4)	3942 (83.5)	778 (16.5)	4720 (100.0)
1991-92	695 (13.1)	3851 (72.4)	4546 (84.4)	777 (14.59)	5323 (100.0)
1992-93	786 (13.1)	4353 (72.7)	5139 (85.8)	848 (14.2)	5987 (100.0)
1993-94	899 (13.0)	4989 (71.9)	5888 (84.9)	1052 (15.1)	6940 (100.0)
1994-95	1004 (12.3)	5698 (70.1)	6702 (82.4)	1432 (17.6)	8134 (100.0)

Source: CSO: National Accounts Statistics, 197, p.16.

- Note:**
- 1) GFCE = Government Final Consumption Expenditures.
 - 2) PFCE = Private Final Consumption Expenditures.
 - 3) Figures in brackets are percentages.
 - 4) CSO's discrepancy item is adjusted in PFCE.

10.6.2 Distribution of PFCE

The distribution of households' consumption expenditure in India between the durable goods, non-durable goods and services has been analysed in Table 10.2.

In India, a very high percentage of the consumption expenditure is on non-durable goods and services. These two taken together account for about 97 per cent. The expenditures on durable goods like car, TV, fridge, etc. is very low. It is about 3 per cent of the total expenditure.

However, over the period, the percentage of expenditure on non-durables has declined. This is in line with the classical economic law which states that as the income in the society increases, people tend to spend a lesser percentage on food and clothing. It should be noted here that lower percentage does not necessarily imply a decline in the absolute term. A percentage may decline whereas the expenditures in absolute term may be rising.

Table 10.2: Distribution of PFCE

(Rs. Billion) (1 billion = 100 crores)

Year	Durable Goods	Non-durable Goods	Services	Total
1980-81	15 (1.5)	802 (80.7)	176 (17.8)	993 (100.0)
1990-91	79 (2.4)	2568 (77.3)	676 (20.3)	3323 (100.0)
1991-92	83 (2.2)	2797 (77.3)	791 (20.5)	3851 (100.0)
1992-93	100 (2.3)	3348 (76.91)	905 (20.8)	4353 (100.0)
1993-94	113 (2.3)	3854 (77.2)	1022 (20.5)	4989 (100.0)
1994-95	143 (2.5)	4388 (77.0)	1167 (20.5)	5698 (100.0)
1995-96	178 (2.8)	4969 (77.0)	1306 (20.2)	6453 (100.0)

Source: CSO: National Accounts Statistics, 1997, p.16.

- Note:**
- 1) GFCE = Government Final Consumption Expenditures.
 - 2) PFCE = Private Final Consumption Expenditures.
 - 3) Figures in brackets are percentages
 - 4) CSO's discrepancy item is adjusted in PFCE.

The percentage of expenditure on the services have increased. The expenditure on services like medical, education, transport, etc. is mostly incurred by the middle class and rich class. A rising percentage on services and also on durable goods may be due to a higher increase in the income of these two classes as compared to the poor class.

We have also looked at the PFCE from a slightly another angle of distribution. We have taken 8 broad commodity groups and distributed the total expenditures amongst these groups of items. These are given in Table 10.3 below:

Table 10.3: Distribution of PFCE by Commodity Groups

(Percentages)

	1980-81	1995-96
1) Foods	58.8	53.1
2) Clothing and Footwear	11.2	11.4
3) Fuels	12.6	8.9
4) Furniture, etc.	2.8	3.7
5) Medical	3.0	2.2
6) Transport & Communications	5.1	12.3
7) Education	3.0	3.6
8) Other Services	3.5	4.8
Total	100.0	100.0

The results are in line with those obtained for durable, non-durable and services. Here food, clothing, fuel, etc. accounts for 83 per cent. Compared to this furniture, etc. accounts for 2-3 per cent whereas rest falls in the services category.

The pattern of distribution of PFCE in India is quite different from those in the advanced industrialised countries. In these countries, the percentage of total expenditures on durable goods is much higher 8-10 as compared to 2-3 in India. Therefore one may expect that with the economic development in India, the percentage of total expenditures, on durable goods is likely to go up.

Check Your Progress 3

- 1) In 1995-96 what was the share of durable consumer goods in the total private final consumption expenditure in India ?

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- 2) As between durable goods, non-durable goods and services, state whose share has increased and whose share has declined in the total private final consumption expenditures between 1980-81 and 1995-96.

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10.7 MEANING OF SAVING

It has been stated in the beginning that in national disposable income is splitted into (i) consumption and (ii) savings. Of the total income of an individual (or a household) that part of income which is not spent on consumption is saving. Thus, income (inclusive of current transfers) is identically equal to consumption plus savings. Thus, if the society spends all of its income on consumption it will save nothing. Saving can be done only by not spending the whole of disposable income on consumption.

Saving = Disposable Income – Consumption Expenditure

Simply speaking, saving is that part of national disposable income which is not spent on consumption. The rate of saving is expressed as a percentage of GDP at market price. This can be measured as follows:

$$\text{Rate of Saving} = \frac{\text{Gross Domestic Saving}}{\text{Gross Domestic Product (at Market Prices)}} \times 100$$

10.8 SECTORAL DISTRIBUTION OF SAVINGS

There are three main sources of domestic savings. These are:

Households Sector : In India, for the purposes of estimating savings household sector includes all consumer households, private non-profit institutions serving households and unincorporated business enterprises.

Private Corporate Sector includes non-financial public and private limited companies and corporate banks and co-operatives.

Public Sector includes central and state governments, local authorities, government statutory corporations (like LIC), departmental enterprises (like railways) and government companies (like Coal India Ltd.).

Of the three sectors of domestic savings, the **household sector** occupies the most important place. In India, it contributes more than 80 per cent of the total savings. The private corporate sector and the public sector occupy the second and third positions respectively. Table 10.4 below gives the percentage contribution of these three sectors in our gross domestic savings (GDS).

Table 10.4: Sources of Gross Domestic Savings (GDS) in India (at current prices)

(In Percentage)				
Year	Household	Private Corporate Sector	Public Sector	Total
1950-51	74.3	6.8	18.9	100.0
1960-61	74.4	18.4	12.2	100.0
1970-71	91.0	5.4	3.6	100.0
1980-81	75.9	7.9	16.2	100.0
1990-91	84.0	12.0	4.0	100.0
1996-97	76.8	14.8	7.4	100.0

Data given in the above table indicate that the largest contribution to GDS is made by the household sector. It is important to point out here that a major

share of the household savings comes from the urban households. The percentage contribution of the rural household is relatively lower.

The private corporate sector has contributed relatively a small percentage to gross domestic savings. Its share has ranged from about 7 to 15 per cent during 1950-97. The main reason for this is its small size. However, over the period, the percentage share of this sector has increased.

The public sector contributed about 19 per cent in gross domestic saving in 1950-51. Then by 1970-71 its percentage share declined to 3.6 per cent. During the seventies the share again rose to more than 16 per cent. Subsequently the share again declined. In 1996-97, it was 7.4 per cent.

10.9 CAUSES OF LOW SAVINGS AND MEASURES TO PROMOTE SAVINGS IN INDIA

10.9.1 Causes of Low Savings

The level of savings in India is low. The main causes are :

- i) Low-level of per capita income;
- ii) Insufficient agencies (i.e. banks, etc.) to mobilise savings;
- iii) Increase in unproductive expenditure due to demonstration effect;
- iv) Low public sector savings because of poor performance of public sector enterprises;
- v) Low private corporate sector saving because of its small size; and
- vi) Lack of taxation in agricultural sector.

10.9.2 Measures to Promote Savings

To raise the level of savings in India, the following steps can be taken:

Public Sector's Savings

The following steps can be taken to increase savings of the public sector:

- i) **widen the tax base**: this means the rich and wealthy farmers, who until now are exempted, need to be taxed to raise savings of government.
- ii) **strengthen tax-collecting machinery** to prevent large-scale tax evasion.
- iii) **Heavier taxation on luxury goods**.
- iv) Effective steps need to be taken so as to **raise the efficiency and productivity of public sector enterprises**. These enterprises, then would generate surpluses.

Private Corporate Sector Savings:

- i) Profits diverted to investment should be given liberal tax concessions.
- ii) Curbs on the unproductive business expenses should be imposed.

Household Sector Savings

The household sector in India occupies a significant position as far as savings are concerned. It, thus, becomes necessary to increase propensity to save of the households. The following measures in this direction are suggested:

- i) Efforts should be made to mobilise savings particularly in the rural household sector by adopting measures like *extension of bank branches* in rural areas.
- ii) Appropriate interest rates to encourage savings.
- iii) Rate of inflation should be kept under control, because increase in price-level has adverse effect on savings.
- iv) Proper propaganda and advertisement should be done for inculcating a habit of thrift among the people.

Check Your Progress 4

- 1) Explain the meaning of saving.
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- 2) What were the shares of households, private corporate sector and public sector in gross domestic savings in India during 1996-97.
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- 3) What are the causes of a low rate of saving in India.
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10.10 FORMS OF SAVINGS

In what forms does one keep his savings? We keep it in the form of currency in our safe. We keep it in the form of deposits with banks companies etc. We buy shares and debentures from our savings, we lend money to the government, buy life insurance policy, contribute to provident funds and so on. All these forms of keeping savings are financial forms.

In what other forms we can keep our savings. We can buy a house, a machine, or any other asset for use in production. We can use our savings for stocking up of goods. All these forms are the physical forms.

CSO has classified the financial savings of the household sector into the following forms:

- 1) Currency;
- 2) Net deposits;
- 3) Shares and debentures;
- 4) Net claims on government;
- 5) Life Insurance Funds; and
- 6) Provident and Pension Funds.

CSO has classified saving in the form of physical assets by households into investment in fixed assets of construction and machinery and equipment and change in stocks.

Broadly thus there are two ways of keeping one's savings: (i) in the form of financial assets and (ii) in the form of physical assets. Out of these financial assets are important in case of private corporate sector and public sector.

10.11 FINANCIAL SAVINGS

Let us now discuss saving in different financial assets:

Currency: With saving in currency, we mean change in the currency held by the public. For instance, if on 31.3.97, the stock of currency with the public were, Rs.40,000 crores and on 31.3.1998 say, Rs.50,000 crores, then saving in the form of currency during 1997-98 comes to Rs.10,000 crores. This amount by the public is taken to be held in the hard cash in the house.

Net Deposits: Like the saving in the form of currency, the net deposits in the banks are also changes in the deposits in the bank. If I had a balance of Rs.10,000 in my saving accounts on 31.3.97 and of Rs.12,000 on 31.3.98, then my saving in net deposits is equal to Rs.2,000 in 1997-98.

Shares and Debentures: A person can save and invest in shares and debentures. Limited companies (private sector or public sector) have their base capital as share capital. These are distributed mostly in the denomination of Rs.10 and in some cases Rs.100. These shares could be purchased or sold in the share market.

Net claims on Government: Then there is a lending by the people to the Government in the form of bonds, etc. As in the other two cases, saving in this form is calculated by taking the total lending to the Government at the end of the current year and subtracting the out-standing at the end of the previous year.

Life Insurance Funds: In India and other economies people also save in the form of contributing money to life insurance schemes. The contribution made by the people towards their life insurance fund is also included in the saving.

Provident Fund: People also save by making contribution to the provident funds. At present there are three types of provident funds in India, **Contributory Provident Fund** (CPF) in which employers and employees both contribute on monthly basis. Then, there is General Provident Fund, for public servants, where contribution is made only by the employees. Finally lately, the Indian Government has also set up a Public Provident Fund in which any person can

make contribution any time in a year. This also enjoys some legal protection as in the case of other two provident funds.

Other Small Savings: Besides, the instruments stated above there are other small savings, specially in the Post Office Saving Scheme, like National Saving Scheme (NSS), Vikas Patra, etc.

Check Your Progress 5

- 1) What are the various Financial Assets in which people put in their savings.
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- 2) If you hold Rs.1000 at the end of the year, how you will calculate your saving in the form of currency during the year.
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- 3) Is construction of a residential house a saving or a consumption activity.
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- 4) Consider that you have Rs.5,000 in your saving account in a bank at the end of the year. How you will calculate your saving in the form of deposits.
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10.12 LET US SUM UP

Capital formation plays a key role in economic development. It enables the country to set up factories, to make use of round about techniques of production. It creates employment opportunities. The capital formation is directly and solely dependent on : (a) volume of saving and (b) mobilisation of saving. There are three main sources of domestic saving in India: (i) The household sector; (ii) the private corporate sector; and (iii) public sector. The share of the household sector in the gross domestic saving has been the highest. Presently it contributes more than 80 per cent of the total savings. Causes of low savings in India are as follows: (i) low per capita income, (ii) lack of banking facilities, (iii) increase in unproductive expenditure, (iv) low savings in public sector.

There have been several measures to promote savings in India: (i) Agricultural taxation; (ii) Heavier taxes on luxury goods; (iii) improvement of public sector enterprises; (iv) Check on unproductive business expenses; (v) expansion of banking facilities ; (vi) attractive interest rates; (vii) check on rising prices; and (vii) publicity of saving schemes.

Capital formation or investment refers to the net addition to the existing stock of physical assets. Saving is that part of national disposable income which is not spent on consumption. Rate of saving is expressed as a percentage of GDP. Household Sector includes all households, unincorporated business enterprises and non-profit-making institutions. Private Corporate Sector is made up of non-government corporate sector and corporate banks and cooperative societies. Public Sector: includes government administration, departmental enterprises, government companies and statutory corporation. Propensity to save is the ratio of saving and income.

10.13 KEY WORDS

Capital Goods	: Goods produced for use in future productive processes.
Consumer Durables	: Consumer goods which have a life span of more than one year . These can be repeatedly used for over a long period . Examples – TV, Radio, Motor Car, House Building, Fridge etc.
Consumer Non-durable	: Goods get destroyed in their first act of consumption. Normally, the goods which have a life of less than one year are treated as non-durable. For example water , milk, fruits, vegetable. <i>Saving</i> : That part of income which is not spent on consumption.
Consumption	: An activity leading to satisfaction to human wants. All goods and services acquired with the intention of satisfying wants are known as consumer goods and services.
Financial Asset/ Financial Savings	: Assets/savings in the form of paper titles like currency notes, deposits in banks, shares and debentures, life insurance premium, Units of UTI etc.
Intermediate Goods	: Goods used for further production process. Such goods are purchased by production units from other production units for producing final goods. Examples are- raw materials, electricity, water, repairs and maintenance.
Non-durable Capital Goods	: Goods which are used only ones in the process of production . As per example – raw material.

Physical Saving : That part of saving which is done in the form of house construction for residential purposes, plant and machinery, inventory etc. Saving in physical asset necessarily equal to the investment made.

10.14 SOME USEFUL BOOKS

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10.15 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

- 1) *Intermediate goods*: Goods purchased by production unit from other production units during a year and completely used up in production process during the same year.
- 2)
 - i) Taxi – capital goods
 - ii) Personal Case – consumer goods
 - iii) Floor used in the household – consumer goods
 - iv) Maida used by baker – intermediate goods
 - v) Wheat in a Flour Mill – intermediate goods
 - vi) Steel used in a factory – intermediate goods
- 3) *Consumer goods*: goods purchased by the households and general government this can be further classified into durable and non-durable consumer goods.

Check Your Progress 2

- 1) The three categories of final consumer's are:
 - a) consumer durable
 - b) consumer non-durable
 - c) the final consumption expenditure of private non-profit institution serving households

- 2) For Government's Final Consumption Expenditure (GFCE) see section 10.5.1
- 3) See Section 10.5.2
- 4) Durable consumer's goods are those which can be used again and again. Some e.g. are – cars, VCR, TV sets, Refrigerators, Washing Machines, Air-conditioners, etc. non-durable goods are those which can be used only ones some e.g. are food items, soaps, oils, writing paper, petrol etc.
- 5) Services are produced and consumed simultaneously some e.g. are transport, telephone, telegraph, health care, education etc.

Check Your Progress 3

- 1) In 1995-96 the shares of consumer goods in the total private final consumption expenditure was 2.8 per cent.
- 2) The share of durable goods has increased and non-durable goods has declined services sectors share has increased during the first decade during 1980-81 to 1990-91. However, it is roughly having a constant share of 20.5 per cent during the nineties.

Check Your Progress 4

- 1) See Section 10.7
- 2) See Section 10.8, Particularly Table 10.4
- 3) See Subsection 10.9.1

Check Your Progress 5

- 1) See Section 10.11
- 2) If you holed Rs.1000/- at the end of the year, say, 2000 , you will have to see what was the amount at the end of year 1999. The difference between the two will be saving in the form of currency during the year.
- 3) Construction of residential house is a saving activity.
- 4) Calculation of saving in the form of deposit will be done on the basis of the amount added to the saving suppose in 1997-98 deposit was Rs. 5000/- and in 1998-99 it was Rs.6000/- thus the addition made to the previous balance will indicate the increasing deposit.