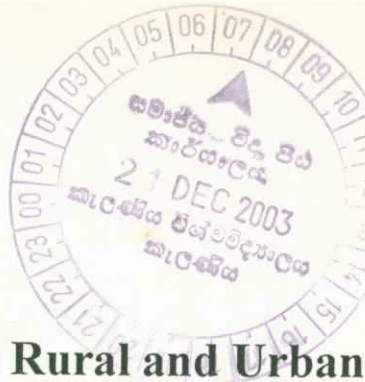


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**A Comparative Study between Rural and Urban
Consumption Patterns and their Impact on the
Domestic Savings
(With Special Reference to Ratnapura District)**

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ABSTRACT

Consumption and savings are very important interrelated variables in an economy. The behavior of other macro variables such as employment, investment, capital formation and so on depends mainly on the consumption expenditure. If an economy records a higher propensity to consume, it will tend to lower the quantity of savings. The quantity of savings directly affects on the level of investment and investment affects the aggregate output. Thus, the growth of the quantity of savings is the core requisition for uplifting the growth of an economy. However, Sri Lanka records a low savings ratio, which is fluctuating between 10 percent and 20 percent during the last decade. This is considerably low, compared to the other countries of the region. This study attempts to examine whether there is an impact of the household consumption pattern (rural and urban) on the quantity of savings in Sri Lanka.

This study contains three major objectives. Basically, the study attempts to examine the levels of household savings in rural and urban areas of the Ratnapura District as reflected by the consumption patterns of both sectors. For this purpose the researcher expected to construct consumption functions for both of the above sectors. Secondly, the study concerns the income, consumption expenditure and living levels of the households. Further, the researcher takes into account the food ratio of rural and urban sectors separately and expected to identify the special features in consumption patterns.

For these objectives the researcher used expanded model; $C = a + bYd + cN + e$ based on the Keynesian consumption function, $C = C_0 + bYd$. The study was conducted in the Ratnapura District of the Sabaragamuwa Province. Balangoda UC area and Imbulpe DS division area were selected randomly in order to represent the urban sample and the rural sample respectively. The master sample consists with 222 elements and this was distributed along the urban and rural sectors as 123 and 99 respectively. The primary data was gathered on income, consumption and savings by using a specific questionnaire. In addition, the secondary data was collected from various sources using source cards and detailed cards.

The researcher constructed two separate consumption functions for the rural and urban sectors as $C = 1635 + 0.81Yd + 106N + 0.0005W$ and $C = 1174 + 0.7 Yd + 210N + 0.0005W$ respectively. These consumption functions denote a clear difference in consumption propensities between the two sectors. Based on these consumption propensities, the researcher concluded that there is a low level of savings in rural sector (19%) and comparatively a higher propensity to save in the urban sector (30%). Further, the researcher concluded that, a household in the urban sector spends Rs.16866 per month on consumption and for the same purpose a rural household spends only Rs.11197. On the other hand, the study found that the food ratio for the urban sector is 60 percent while it is 70 percent for the rural sector. Another important finding of this study is that a huge disparity in income distribution between the two sectors. The majority of households in rural sector, out of which 40 percent receive an income of less than Rs.10000 per month. On the contrary, the majority of urban households, out of which 40 percent receive income of more than Rs.22000 per month.

The study mainly found that the rural sector savings are comparatively much lower than the urban sector. The main reason behind this is the higher propensity to consume in the rural households with compared to the urban sector. Thus, the study suggests educating the rural households to manage the consumption pattern in order to uplifting the amount of savings. Another reason that the study recognized for this low saving of the rural sector is poor household income. In this regard, in order to boost the rural household income it is recommended to induce the rural people to employ the unutilized resources such as land and labor on production of marketable commodities. Further, the study points out a huge income inequality between the rural and urban sectors. This also directly affects on low savings and unequal consumption distribution between the above two sectors. Hence, the study suggests a necessity of an active government policy to reduce the disparities in income distribution.