

Measuring Living Standard In District Khyber: Using Per Capita Consumption and Income

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Per Capita Income, Per Capita Consumption, Food Consumption, Living Standard, Correlation

ABSTRACT

This study aimed to measure the living standard of the households in district Khyber. To carry out this study correlation between the Per Capita Income (PCI) and Per capita Consumption (PCC) of households was used to assess the living standard of the community. Primary data were collected through the interview from 250 respondents. For the determination of living standards through both per capita consumption and income overviewed. To claim the alternative measure of living standard correlation was used to confirm the applicability as a substitute. Spearman's Rank Correlation was used to examine the association between PCI and PCC Per. Results revealed a strong association between PCI and PCC ($r=0.95$). Correlation results confirmed that PPC is a good substitute for PCI and can be used as a measure of living standards. On the other hand, 'Per Capita Food Expenditure as a percentage of total expenditure' was founded to have a weak and negative relationship with PCI.

INTRODUCTION

The living standard is of immense importance to the policymakers, yet there are contrasting views on the tools used to measure it. Bennett (1937) and Mangus (1943) highlight the complications while assessing living standards. The per capita income (PCI) approach was increasingly used for comparing living standards in the 60s. But this approach does not consider aspects of the living standard and was dropped as a tool used in making policies (Krugman & wells, 2012). Deaton & Zaidi (1991) emphasized the use of 'consumption measures' of living standards to be more suitable for measuring living standards. The fact behind their arguments is that higher consumption of resources is attached to better living. This paper compares consumption with PCIs of the households using correlation and tries to find a suitable substitute for PCI in measuring living standards.

Undoubtedly, PCI ruled the literature in development studies during the sixties, but there are consumption indicators developed by economists that can serve the purpose. First, higher absolute

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consumption of resources results in higher living standards, which is a very strong indicator of living standards. Second, Ernst Engel (1857) proved that people with low incomes and poor living standards allocate a higher proportion of their incomes toward food consumption and vice versa. So, less income is left behind after spending on food. In addition, Average Propensity to Consume (APC), according to Keynes (1937), reflects the living standard. Households with higher APC tend to have higher incomes so higher living standards and vice versa. Pigou (1920) argues that the enthusiasm behind the subject of economics is the understanding of withered lives and their underlying factors. One of the main objectives of the science of economics is understanding the living standards of human beings. Therefore, economics studies all the factors responsible for the wellbeing of society.

Akekere & Yousuo (2012) rationalize that consumption pattern explains the combination of necessities and comforts the households consume. Therefore, analyzing consumption patterns can help us understand the living standard of the households. Aziz & Malik (2010) studied the relation of various food items with income, price, and household size. It found out that the proportion/percentage of food expenditure reduces with an increase in the income of the households. Islam & Zafar (2017) evaluate long-term consumption function (1973 to 2010) for Pakistan. The APC for the period is estimated to be 0.86. This study will calculate APC for the study area.

Ajmair & Akhtar (2012) found out that income, gender, education, family size, basic needs, and family structure all positively affect consumption which is in line with Keynes Hypothesis. On the other hand, consumption decreases with an increase in age, which proves the life cycle hypothesis. Orbeta (2005) in his study found out that larger households being poorer and more vulnerable to poverty. Furthermore, the negative impact is more on poor families than richer ones. Ogbe (2018) showed that for Nigeria, expenditure increases with household size but no evidence of any change in income. These findings reveal the fact that the living standard goes down with an increase in household size. Lanjouw & Ravallion (1995) evaluate the economies of large households in expenditure. Though some public goods are shared by all members but still expenditure on private goods increases with every increase in the size of the household. The study found out that there is a decrease in Per Capita Expenditure with an increase in the household size, which shows a decline in living standards. Finally, it explains that to keep all the household members on the same level of living, expenditure needs to increase by 0.6 (of per capita expenditure). This means that family income should also increase by this amount for maintaining the same level of living standard.

Meyer and Sullivan (2003) concluded that expenditure data is a more reliable basis for measuring living standards than income, especially for a low-income household. They justified that it becomes difficult to count income from many small sources, whereas consumption data is more easily available. According to Bennett (1937) and Mangus (1943), measuring living standards is a difficult task for the reason that there are so many things defining them. Furthermore, Krugman & Wells (2012) further stressed that PCI does not consider all aspects of welfare and therefore insists policymakers avoid its use. Brewer and O'Dea

(2012) used both income and consumption for measuring living standards in the UK. They found differences between the results based on these two measures, especially for low-income households. The study concludes that consumption better reflects the living standard of the households than their income. Blundell & Preston (1996) argue that people can borrow or save money out of their incomes which affects their current consumption, but they have a smooth consumption over a longer period. Therefore, the study advocates the fact that living standard is dependent on current consumption than income. Haughton & Khandker (2009) summarize the problems in using income as a measure of living standard. Income changes over time, difficult to measure personal farm consumption, and difficult to recall small incomes over a while from different sources; make the use of income for measuring living standards impracticable. On the other hand, households don't change their consumption much fast which makes it a more authentic indicator for living standards.

Ernst Engel (1857) showed that food being the basic necessity of households spends incomes on other goods only after meeting their food expenses. This fact implies that the proportion of food in total expenditure will reduce with every increase in income (living standard) of the household. This conclusion brings us to the point where we can take 'the proportion of food in total expenditure' as a tool for measuring living standards. The higher the proportion, the lower will be the living standard and vice versa. Keynes (1937) found out that as income rises, APC decreases, which further implies that APC will be smaller for higher-income households and vice versa. This conclusion will be used for measuring living standards where a smaller APC is attached to higher living standards. Burney & Khan (1991) worked on household consumption patterns using Marginal Expenditure Shares, Expenditure elasticity, and Economies of Scale for evaluating Household Consumption Patterns. They found that the proportion of food and drink share in total expenditure decreases with an increase in expenditure. On the other hand, households allocate a higher percentage to housing, transport, communication, education, entertainment, and durables. Deaton & Zaidi (1991 & 2001) argued that consumption methods are far better than income techniques for measuring living standards. This paper outlines the method for calculating consumption aggregates from survey data. It states that though it is a complex technique for measuring living standards, 'there is a good deal of consensus on the value of using a consumption aggregate as a summary of measure of living standard'. Bunting (1989) evaluated time series and cross-sectional data and found the value of MPC to be 0.90 and below 0.80 respectively. The smaller MPC for cross-sectional data suggests that long-term income is more important than short-run in determining consumption.

This study compares the income of the household with their consumption. For this purpose, PCI of the households is linked with their consumption using the correlation technique. It will show how close the results of the two methods of measuring living standards can be and which method could be used as a substitute for PCI for this purpose.

RESEARCH METHODOLOGY

Method

This study compares the per capita income of the households with the following three consumption variables reflecting their living standard using rank correlation coefficient:

- Food expenditure(FE) as a proportion of total expenditure; higher the proportion, lower the standard of living
- Per Capita Consumption of the households; the higher the expenditure, the higher will be the standard of living.
- The percentage of the Income Consumed; the higher the consumption, the lower will be the standard of living.

Spearman Rank Correlation Coefficient used:

$$\rho = 1 - \frac{6\sum D^2}{n(n^2 - 1)}$$

Data Collection

Interview Schedule

A detailed interview schedule is used for data collection from the households containing questions on the following items:

- Food Items
- Non-Food Items
- Consumer Durables
- And Housing

Sample and Population

The population of this study is all the households in Tehsil Landikotal, district Khyber. A random sample of 250 households is being selected and interviewed. Primary data is collected from the selected households through an interview schedule.

Analytical Technique

The following analytical techniques are used in conducting the study:

- a. A multi-stage sampling technique is used. In the first stage, clusters are selected randomly. The households are chosen from those clusters using systematic sampling.
- b. Spearman Rank Correlation coefficient is used for estimating the relationship of consumption measures with per capita income measures of living standards.

Variables

The variables important are household income, consumption, food consumption, and size of the household. Data is collected on these variables from the randomly selected households through an interview schedule.

RESULTS AND DISCUSSIONS

Descriptive Statistics

The household size in the study area is 11.5 as compared to 6.3 and 7.3 in Pakistan and KP respectively, which is far large. Also, per capita income is 490 USD as compared to 1550 and 1457 USD in Pakistan and KP respectively. The other important finding is the households allocate 58% of their expenditure to food which is far higher than national and provincial figures (37% and 45% respectively) which is an indication of low living standards. Also, using the '1.9 USD' poverty standard, 71% of the households live below the poverty line.

Correlation Results

Finally, here we show the analysis and results of the study. In this part, Spearman's Rank Correlation method is used for finding the relation between income and consumption measures of living standards. For this purpose, all the households are ranked based on their incomes, total expenditure, expenditure as a percentage of total income, and food expenditure as a percentage of total expenditure. Finally, PCI is correlated with the three consumption measures of living standards. The objective of this analysis is to find a close substitute for PCI as a measure of living standard, the higher the value of correlation, the better is a substitute.

PCI and Food Share in Total Expenditure

The first variable correlated with PCI is 'food share in total expenditure' which is used based on Ernst Engel's (1857) famous law, "the proportion of food in total consumption decreases with an increase in income". While a higher value of PCI reflects a higher living standard.

Table-1: **CORRELATION BETWEEN PCI AND FE**

	<i>Food Percent</i>	<i>N</i>
PCI	-0.327	250

****.** Correlation is significant at the 0.01 level (2-tailed).

The test shows a weak negative correlation between the two variables. the value of correlation is very small (-0.327) which tells us that PCI and Food Share in total expenditure are weakly correlated. Hence, we conclude that Food expenditure should not be used as a substitute for PCI in measuring the living standard of the households.

Per Capita Income and Per Capita Expenditure

Just like per capita income, per capita expenditure is another very important indicator of living standards. Households with higher per capita expenditure represent a higher living standard and vice versa.

The correlation result is as follows:

Table-2: **CORRELATION BETWEEN PCI AND PCC**

	<i>Per Capita Consumption</i>	<i>N</i>
PCI	0.951	250

****.** Correlation is significant at the 0.01 level (2-tailed).

The value of correlation is 0.95 which shows a very strong relationship between the two variables. This result indicates that households can also be ranked from rich to the poor based on per capita expenditure as a substitute for PCI. In other words, based on the strong correlation between them, the PCE could be used as a substitute for PCI for measuring living standards.

Per Capita Income and Share of Income Consumed

The last consumption variable tested as a substitute for PCI is ‘share of income consumed’. By economic theory, the poorer consume a larger share of their incomes than the richer. Therefore, households are ranked by the share of incomes they consume and saver, and then correlated with the ranks based on PCI. The results of this analysis are as follows:

Table-3: Correlation *PCI and Income Consumed*

	<i>Share of Income Consumed</i>	<i>N</i>
PCI	-0.673	250

****.** Correlation is significant at the 0.01 level (2-tailed).

The correlation result shown in the table suggests that there is a strong association between PCI and ‘share of income consumed’. It proves the theory that as PCI increases, people gain the power to consume a lesser share of their income and save more. The result signifies that the correlation between the two variables is strong but not perfect. Therefore, we conclude from our analysis that ‘share of income’ may not be used as a perfect substitute for PCI in measuring living standards.

Based on our analysis in this part, we found out the correlation of per capita income as a measure of the living standard with food as a proportion of total expenditure, per capita consumption, and portion of income consumed. The results are summarized in the table below:

Table-4: **PCI AND CONSUMPTION MEASURES**

The measure of Living Standard	Food % of Consumption	Per Capita Consumption	Share of Income Consumed
PCI	-0.33	0.95	-0.67

CONCLUSION

This study attempted to compare consumption measures of living standards with incomes of the households. The data was collected from the households in district Khyber, a backward area of Pakistan. A sample of 250 households was selected randomly and interviewed through a well-designed questionnaire. Data was collected on income and expenditure on food, non-food, durables, and housing.

The study used Spearman's Rank correlation technique to find out the relation between PCI and consumption for assessing the living standard of the households.

This paper compared the conventionally stated consumption-based 'living standard' measuring methods with the PCI. Households were ranked on each method individually and then their rankings were compared using Correlation (Spearman Rank Correlation). The study found out a certain relationship between per capita income measures and consumption measures of living standards. Out of the three consumption methods, 'per capita consumption was found out to be strongly correlated (0.95) with PCI. This means that households could be ranked precisely in terms of their living standard using 'Per Capita Consumption. This result further implies that economists can use 'Per Capita Consumption' as a substitute for PCI. Finally, the correlation between PCI with 'share of income consumed' and 'Food Proportion in Expenditure' is found out to be -0.67 and -0.33. These figures suggest that PCI has certain relation with the two consumption methods but is not strong enough for substitutability. Hence, we conclude that 'Per Capita Consumption' is the best among consumption methods for assessing living standards. In other words, higher per capita consumption reflects higher living standards.

The results of the present study in line with the findings of the studies conducted by Krugman & Wells (2012) stressed that PCI does not consider all aspects of welfare and therefore insists policymakers avoid its use and they can use consumption as a measure of well beings. Brewer and O'Dea (2012) also used both income and consumption for measuring living standards in the UK. They found differences between the results based on these two measures, especially for low-income households. The study concludes that consumption better reflects the living standard of the households than their income their findings are parallel with the present study. Haughton & Khandker (2009) summarize the problems in using income as a measure of living standard. Income changes over time, difficult to measure personal farm consumption, and difficult to recall small incomes over a while from different sources; make the use of income for measuring living standards impracticable. On the other hand, households don't change their consumption much fast which makes it a more authentic indicator for living standards.

LIMITATIONS OF RESEARCH STUDY

The first key limitation of this study was the security problem in the area. The area is so abandoned that even PSLM and HIES surveys are discarded to conduct there. Therefore, it is too dangerous, expensive, and time-consuming to conduct such a study there. Also, some areas with severe security risks were avoided to go there. Secondly, the surveyors faced severe problems in collecting relevant information from respondents due to their attitude towards surveys. It was not an easy task to collect economic data from households whose literacy level was so low to assure secrecy and communicate to them the objectives of the study. Finally, as the study was mainly based on primary data, it was very costly for the researcher to hire interviewers for the study.

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Block Code	Household No.	Household Name	Village Area

SURVEY INFORMATION

Total Number of Members in Household (Living and eating together and share income)	Number Members Above 14 years of age	Number of Members Below 14 years of age	Number of Working Family Members	The ratio of Educated VS Uneducated

TABLE - 1 Part-A HOUSEHOLD ROSTER, EDUCATION, EMPLOYMENT AND INCOME

S.No.	1. Name of the working person for earning income (Earner)	2. Relation to the head of Household	3. Age	4. Years of Education	5. What work does he do (Occupation)	6. What is the monthly income?	7. Yearly Income
1							
2							
3							
4							
5							
6						Total Yearly Income	

TABLE - 2 PART- A OTHER PAYMENTS RECEIVED (Net) DURING THE LAST YEAR	
During the last 1 Year , did any member of the HH receive income from any of the following sources?	Total Amount Received in Last 1 year
1. Family Help, Zakat, Sadqa Received, etc.	
2. Rent received from land, Building, Property	
3. Annual income from Benazir income support program (BISP)	
4. Livestock, Gold, or other asset sold	
5. Any other source of Money used for this year's consumption?	
Total B	

Note: Home produced or salaries in kind should be converted based on Market Value

TABLE - 3 PART-2: HOUSEHOLD EXPENDITURE FORTNIGHTLY (TWO WEEK) CONSUMPTION EXPENDITURE ON FOOD ITEMS

Food Items consumed by HH members in LAST 14 DAYS	Consumed in Rupees
Write NONE if Did not Consume	Calculations Total Rs Spent
Milk, Powdered Milk for Adults and Children	

Yogurt, Lassi, Butter, Cream, Cheese		
Fernie, kheer, Ice cream, etc		
Beef, Mutton, Chicken Meat, Fish, Eggs, Other		
Fruits Consumed		
Dry Fruits (Almond, Peanuts, Walnuts, Dates, etc)		
Vegetables (Salad, Onion & Tomatoes, Potato, Ginger, Garlic, etc)		
Masalajat for Cooking etc		
Sugar, Gur, Honey		
Toffee, Chocolate, Chewing gum, Slanty, chips, etc		
Bakery Sweets		
Cold Drinks and Juices (Fresh and Packed) Mineral Water		
Readymade meals (Fast Food, Pakoras, Samosa, Kabab, Bazari Roti)		
TOTAL Table:3		

TABLE - 4 PART-2: HOUSEHOLD EXPENDITURES MONTHLY CONSUMPTION EXPENDITURE ON FOOD ITEMS

Items consumed by HH members in Last 1 Month		Consumed in Rupees
Write NONE if Consumed	Quantity and Price	Total Rs Spent
Food Items		
Wheat and Wheat flour		
Rice, Jawar (Whole and Flour)		
Suji, Besan		
Cereals products (Vermicelli/Noodles, Macronies, Spaghetti, etc.)		
Dal/Pulses (Lobia, Dal chana, Mash, Moong, Masoor, etc)		
Ghee, Desi Ghee, Cooking Oil		
Tea (black, green) and Coffee		
Biscuits, Cake, Jams, Tomato Ketchup		
Chatni, Pickles, Vinegar, Khameer		
Food and Grain milling/grinding charges		
TOTAL TABLE:4		

TABLE - 5 PART-3: HOUSEHOLD MONTHLY CONSUMPTION EXPENDITURE ON NON-DURABLE GOODS AND SERVICES. (Non-Business)

Items Consumed by Household Members in Last One Month		Consumed in Rupees
Write NONE if did not Consume	Quantity and Price	Total Rs Spent
Cigarettes, Naswar, and Other		
Newspapers, magazines, novels, books (not for education)		

Personal Car Expenses (Petrol/ Diesel, Mobil oil, CNG, Maintenance)		
Traveling by road (bus, taxi, rickshaw, train, etc.)		
Wages & salaries paid to servants, etc.		
Telephone, postal, Internet payments, etc.		
Mobile Balance Used, Mobile repairing charges.		
Pocket money to children		
Expenses on of Goats/Cows etc(for domestic use only)		
Other expenditures not elsewhere classified		
TOTAL TABLE:5		

TABLE – 6 PART-3: HOUSEHOLD MONTHLY CONSUMPTION EXPENDITURE ON NON-DURABLE GOODS AND SERVICES

Items Consumed by Household Members in Last One Month		Consumed in Rupees
Write NONE if did not consume	Calculations	Total Rs Spent
Firewood, Kerosene oil Coal Dung-cake		
Gas (cylinder)		
Electricity/Transformer/Line costs etc		
Matchbox, Candles, etc.		
Generator expenses (petrol/diesel etc)		
Bath soap, Toothpaste, Brush, Miswak		
Shampoo, Hair oil & creams, hair tonic & color		
Other Cosmetics, (perfumes, lotions, etc)		
Haircutting & dressing etc (include shaving material)	Around 100 per person	
Washing soap and powder, Dishwashing articles, cleaning wipers, etc		
TOTAL TABLE:6		

TABLE - 7 PART-3: HOUSEHOLD YEARLY CONSUMPTION EXPENDITURE ON NON-DURABLE GOODS AND SERVICES

Items Consumed by Household Members in Last One Year	Paid & consumed	Consumed in Rupees
Write NONE if not Consumed	Calculations	Total Rs Spent
Clothes Purchases (Shalwar Qameez, Coat, Sweater, Dupatta, Chadar, Burka, etc) Hint: Estimate per person for a year and then multiply, Male, Female, and Children separately then Add together		
Footwear made of leather and plastic (Do same like for Clothes)		
Repair charges of footwear, Polishes, shoe shining and cleaning brushes, etc.		
Plastic, steel, and glass Jewelry & ornaments (bangles, necklaces, and earrings, etc.)		
Gloves, handkerchief, scarf, hats, mufflers, etc.		
House repairs/maintenance & renovation /addition etc.		

Other household effects (bulbs, switches, lamp, wires, and U.P.S Solar panel Battery , etc.)		
Hospitalization Cost (Total on Admitted Patient)		
Doctor visit costs last one month (Fee+Medicine+Tests=1500), Convert it to year (Multiply by 12)		
Recreation Trips Costs Travel by airplane.		
Personal Car Repair, Tyre and Tube (Around 10,000 per year) (Non-Business)		
Education Cost (School/college monthly, Hostel Charges, Transport, Uniform, Shoes) (Count one child cost and then estimate for all) Same for next row		
Books and notebooks/copies, stationery, bag, etc. (Estimate for one and then multiply with no. of children)		
Fines, Passport/ Visa fee and Other taxes, etc.		
Expenditure on Eid, Birth, Khairat, and Death (Exclude those recorded above)		
TOTAL TABLE:7		

TABLE - 8 PART-3: HOUSEHOLD YEARLY CONSUMPTION EXPENDITURE ON DURABLE GOODS AND SERVICES

Items Consumed by Household Members in Last One Year		Consumed in Rupees
Write NONE if not Consumed	Calculations	Total Rs Spent
Wristwatches, glasses		
Expenditure on pillows, bed sheets, blankets, curtains, mosquito nets, etc. and Stitching Charges		
Crockery Purchased made of Glass, Plastic, Stainless steel, Wood, Aluminum, and copper		
Cooking heater, Pressure cooker		
Kitchen equipment like lighter, toaster, mixer, Spoons, knives, etc.		
Furniture (Bed, Chairs, table, sofas, Almari, etc.)		
Sanitary fittings		
Carpets and Rugs decoration etc.		
Fan, Air conditioners, Refrigerators, Freezers, Air coolers, etc.		
Heater, Geyser, generator, Sewing machine, iron, etc		
Boxes, suitcase, Wall/table clock, water pipes/tank (rubber, nylon, plastic), thermos bottle, etc.		
Repair Cost incurred on Above mentioned Durables		
Mobile phones, Personal Computers MP3, Headphones, and Calculators, etc.		
Radio, Guns, Bat, and Balls, TV, Piano, etc		
Transport and traveling vehicles bought (Bicycle, Motorcycle, Car, horses, etc.)		
TOTAL TABLE:8		

BALANCE SHEET FOR INCOME AND EXPENDITURE

TABLE – 10A Section-5 Annual Household Income
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Income Type	Cash Income Earned	Other Source of Money	Total Yearly Income (x)
Table Source	Total Table 1	Total Table 2	
Amount			

TABLE – 10B Section-5 Annual Household Income
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3	Fortnightly Food Table:3 Total	= X 26 = Annual=	TOTAL(A+B+C+D) = Z
4	Monthly Food Table:4 Total	= X 12 = Annual=	
5		= X 12 = Annual=	
6	Monthly Non-Durable Table:5 Total	= X 12 = Annual=	
7	Yearly Non-Durable Table:6 Total	= Annual=	
8	Yearly Durable Table:7 Total	= Annual=	

First level check

Income (X)	Expenditure (Z)	Ratio (Income/Exp) X/Z	Difference
		>0.85, then need further	