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Determinants of Expenditure Behaviour of Households and Policy Imperatives in India

Vikas Kumar[1*], K.N. Singh[1], Sudhir K Rawat[2], Sudhakar Dwivedi[3], Arnab Roy[1] and Mohamad Awais[4]

[1]*ICAR-Indian Agricultural Statistics Research Institute, New Delhi, India*
[2]*Krishi Vigyan Kendra (KVK), Aligarh, Uttar Pradesh, India*
[3]*Sher-e-Kashmir University of Agricultural Sciences and Technology- Jammu, J&K, India*
[4]*Centre of Agricultural Education, FAS, Aligarh Muslim University, Aligarh, Uttar Pradesh, India*

*Corresponding author: vikas.kumar1@icar.org.in

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ABSTRACT

This study examines the structure and pattern of Monthly Per Capita Consumption Expenditure (MPCE) in India using data from the Household Consumption Expenditure Survey (HCES) 2023–24. The analysis highlights rural–urban disparities, consumption composition, and state-wise variations in expenditure. The findings reveal that urban households exhibit significantly higher MPCE compared to rural households, with a notable shift toward non-food expenditure. Engel's Law is validated, showing a declining share of food expenditure with rising income. Statistical analysis, including correlation and regression, indicates strong linkage between rural and urban consumption patterns. The study also identifies regional disparities and inequality in consumption, particularly in access to non-food services such as education, healthcare, and housing. The results provide important insights for policy interventions aimed at reducing inequality and promoting inclusive growth.

Keywords: Determinants, Impact, Monthly per capita consumption expenditure, Rural, Urban

India exhibits significant rural–urban differences in income, access to services, and consumption choices. Understanding these differences is crucial for designing effective development policies. Consumption expenditure is a key indicator of economic well-being and living standards (Deaton & Drèze, 2002; World Bank, 2022). MPCE represents the average monthly expenditure per person in a household and serves as a crucial measure of economic well-being, poverty, and inequality. The survey collects detailed data on household spending on food, non-food items, and services, helping policymakers understand consumption behavior across rural and urban India. The Monthly Per Capita Consumption Expenditure (MPCE) provides a comprehensive measure of household consumption patterns across different sectors of the economy. The Household Consumption Expenditure Survey (HCES) 2023–24 offers updated insights into consumption behavior in India (MoSPI, 2024). This study aims to analyze the structure of MPCE, examine rural–urban disparities, assess state-level variations, and evaluate social group inequalities in consumption..

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Research Methodology

Data Source: The study is based on secondary data obtained. During the period August, 2023 to July, 2024 from the Household Consumption Expenditure Survey (HCES) 2023–24 collected by the National Sample Survey Office (NSSO), Ministry of Statistics and Programme Implementation (MoSPI), GoI. The information has been collected from 2,61,953 Households (1,54,357 in rural areas and 1,07,596 in urban areas) spread over all States and Union Territories in the country (NSS, 2024). The data presented in current prices. The estimates of average MPCE presented here have been generated considering the imputed value figures of the items received free by the households through various social welfare programmes of government in addition to the imputed values of consumption out of home produce, free collection, gifts etc.

Analytical Tools: The following statistical tools have been used:

- Descriptive statistics (averages, percentages), Correlation analysis, Regression analysis: The regression model used is: Urban MPCE = α + β × Rural MPCE
- Engel ratio analysis
- Inequality measures (ratios, coefficient of variation, Gini index)

Scope of Study: The study analyses the determinants and impact of changing consumption expenditure in rural and urban India, state wise MPCE comparison and impact on social groups.

RESULTS AND DISCUSSION

Income Growth and changing Standard of Living: The Engel's law (share of food expenditure in total consumption) provides important insights into living standards (Engel, 1857; Deaton, 2019). Rural households spend 48.43% of their MPCE on food compared to 40.31% in urban areas. Higher urban MPCE (₹ 7,078 compared to ₹ 4,247 in rural areas) confirms that as income increases, households allocate a smaller proportion to food and more to non-food items. This inverse relationship between income and food share confirms Engel's Law.

The higher food share in rural areas indicates relatively lower income levels and limited discretionary spending. In contrast, the lower food share in urban areas reflects higher incomes and a shift toward non-food consumption such as education, healthcare, and lifestyle goods. This transition signifies economic advancement and improved standards of living in urban India.

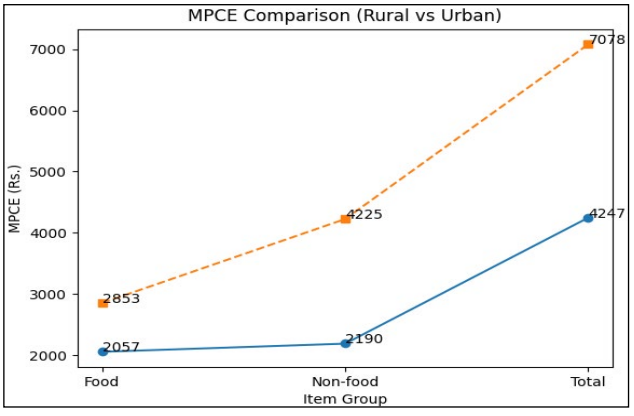

Fig. 1: The rural and Urban MPCE in rupee term for year 2023-24-All India basis

Urbanization and Lifestyle Changes: The Urban–Rural MPCE ratio highlights significant inequality in consumption. The food expenditure ratio is 1.39, the higher non-food expenditure ratio is found as 1.93 and total MPCE ratio is found as 1.67. The disparity is most pronounced in non-food expenditure, suggesting unequal access to essential services such

Table 1: Average MPCE (Rs.) and share of food and non-food items in 2023-24

Item Group	Rural India		Urban India	
	Average MPCE (₹)	Share in MPCE (%)	Average MPCE (₹)	Share in MPCE (%)
Food	2,057	48.43	2,853	40.31
Non-food	2,190	51.57	4,225	59.69
Total expenditure	4,247	100	7,078	100

Source: Household Consumption Expenditure Survey (HCES) 2023–24, NSS, MoSPI, GoI.

as education, healthcare, housing, and transportation (Ravallion, 2016; World Bank, 2022).. This indicates that while basic consumption gaps exist, inequality is more severe in higher-order consumption categories that determine quality of life. This confirms that behavioural change is stronger in urban areas due to lifestyle transformation.

Structural Transformation: The shift toward non-food consumption reflects structural economic change. This can be explained by regression model as explained below. This suggests that behavioural change is linked to structural economic transformation (Chenery & Syrquin, 1975; McMillan & Rodrik, 2011).

$$Urban\ MPCE = a + \beta \times Rural\ MPCE,$$

Here $\beta = 1.6–1.8$, indicating that urban consumption grows faster than rural consumption.

$\beta > 1$ implies accelerated growth of non-food consumption and $R^2 > 0.95$ shows strong dependence but widening divergence.

Expansion of Education and Healthcare: Urban households spend significantly more on education (₹ 418 vs ₹ 133) and healthcare (₹ 409 vs ₹ 282), indicating behavioural prioritization of human capital (Table 2). There is high absolute and relative differences in non-food categories. The non-food ratio (1.93) is highest among all categories. This confirms that behavioural shift is strongest in service-oriented consumption (Becker, 1964; OECD, 2020)..

Table 2: Absolute and percentage break-up of MPCE by item groups in 2023-24: All-India

Item group	MPCE (Rs.)		% share in total MPCE	
	Rural	Urban	Rural	Urban
Cereals & cereal substitutes	323	339	7.6	4.8
Pulses & their products*	84	99	1.99	1.39
Sugar & salt	37	40	0.87	0.56
Milk & milk products	348	503	8.19	7.11
Vegetables	248	288	5.85	4.07
Fruits	158	271	3.73	3.83
Egg, fish & meat	203	249	4.78	3.52
Edible oil	115	127	2.7	1.8
Spices	135	161	3.17	2.27
Beverages, refreshments, processed food#	406	776	9.55	10.96
Food total	2,057	2,853	48.43	40.31
Pan, tobacco & intoxicants	158	166	3.73	2.34
Fuel and light	252	391	5.93	5.53
Education	133	418	3.14	5.9
Medical	282	409	6.63	5.79
Conveyance	313	592	7.36	8.36
Consumer services excluding conveyance	217	400	5.1	5.65
Misc. goods, entertainment	256	484	6.03	6.84
Rent	23	460	0.55	6.5
Taxes and cesses	9	23	0.2	0.32
Clothing, bedding & footwear	278	398	6.56	5.63
Durable goods	269	484	6.34	6.83
Non-food total	2,190	4,225	51.57	59.69
All items	4,247	7,078	100	100

*includes gram #includes purchased cooked meals.

Source: Household Consumption Expenditure Survey (HCES) 2023–24, NSS, MoSPI, GoI.

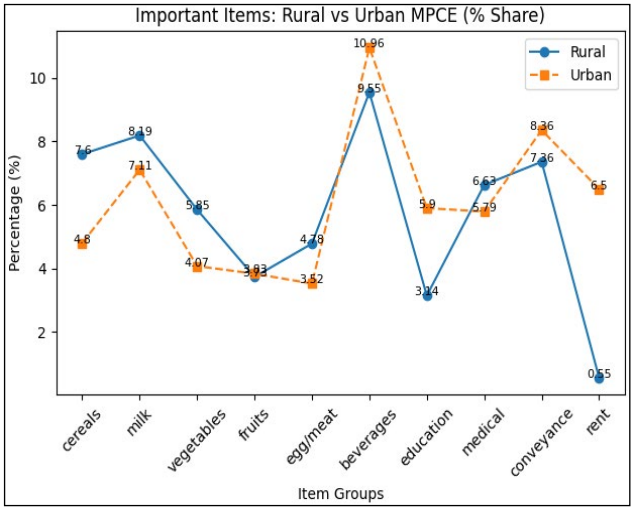

Fig. 4: Expenditure on important items in rural and Urban MPCE in percentage term for year 2023-24-All India basis

Changing Demographics and consumption: The very high correlation coefficient ($r = 0.99$) between rural and urban consumption patterns suggests that behavioural preferences are similar across regions, but differ in magnitude. Thus, demographic and social changes influence behaviour uniformly, but outcomes differ due to income.

Table 3: Average MPCE for each State/UT in 2023-24

State/UT	Average MPCE (₹)	
	Rural	Urban
Andhra Pradesh	5,539	7,341
Arunachal Pradesh	6,107	9,877
Assam	3,961	6,913
Bihar	3,788	5,165
Chhattisgarh	2,927	5,114
Delhi	7,415	8,548
Goa	8,178	9,782
Gujarat	4,190	7,198
Haryana	5,449	8,462
Himachal Pradesh	5,833	9,230
Jharkhand	3,056	5,455
Karnataka	5,068	8,169
Kerala	6,673	7,834
Madhya Pradesh	3,522	5,589
Maharashtra	4,249	7,415
Manipur	4,592	6,005
Meghalaya	3,900	7,857
Mizoram	5,963	8,709
Nagaland	5,282	8,136
Odisha	3,509	5,925
Punjab	5,874	7,383
Rajasthan	4,626	6,640
Sikkim	9,474	13,965
Tamil Nadu	5,872	8,325
Telangana	5,675	9,131
Tripura	6,368	8,118
Uttar Pradesh	3,578	5,474
Uttarakhand	5,123	7,547
West Bengal	3,815	5,903
Andaman & N Islands	7,805	10,461
Chandigarh	8,857	13,425
Dadra & Nagar Haveli and Daman & Diu	4,450	6,876
Jammu & Kashmir	4,896	6,375
Ladakh	5,063	7,561
Lakshadweep	6,489	6,477
Puducherry	7,609	8,639
All-India	4,247	7,078

Source: Household Consumption Expenditure Survey (HCES) 2023–24, NSS, MoSPI, GoI.

Market Expansion and Consumerism : Higher dispersion in urban consumption (as indicated by greater variability) reflects increased choice, product diversity, and consumerism (Table 2). There is higher coefficient of variation in urban areas that reflects the greater spread in non-food expenditure categories. This supports the idea that behavioural change is driven by expanding market opportunities (Lancaster, 1966; Duflo, 2012).

Price Effects and Inflation: Changes in relative prices influence consumption allocation. Despite rising food costs, the share of food declines and rising non -food shares in urban areas, indicating income dominance over price effects (Table 2) (Dreze & Khera, 2017; NITI Aayog, 2023).

Policy Influence on reallocation of items: It is found that the food expenditure ratio (1.39) is lower than non-food expenditure ratio (1.93). Government interventions such as food subsidies reduce effective food expenditure in rural areas, allowing some reallocation toward non-food items. The food burden is reduced due to support of food items through government schemes. It Indicates moderated disparity in essential consumption and suggests that policy plays a role in shaping behavioural outcomes

State-wise Consumption Patterns: State-level analysis reveals a strong positive correlation (r = 0.91) between rural and urban MPCE, indicating that states with higher rural consumption also tend to have higher urban consumption. This reflects the influence of underlying economic development, infrastructure, and institutional capacity at the state level. The analysis has found the regional disparities in consumption. There are high MPCE states/UTs as Sikkim, Chandigarh, Goa, Delhi and low MPCE states as Bihar, Chhattisgarh, Jharkhand, Uttar Pradesh. The significant Urban–Rural Gap is observed in Sikkim, Chandigarh, Telangana, North-eastern states (e.g., Meghalaya). These gaps indicate uneven development, urban concentration of income, and differences in structural transformation across regions (Ahluwalia, 2002; RBI, 2023).

Inequality Across States: With the help of Gini coefficient, the inequality across states is examined. The Gini coefficients indicate moderate inter-state inequality: The Gini coefficient for rural areas is found as 0.21 and for urban areas is 0.19. Slightly

higher inequality in rural areas suggests uneven development within rural regions, whereas urban consumption appears relatively more uniform across states (World Inequality Report, 2022). However, this does not negate the higher absolute levels of inequality within urban areas across income groups.

Social dynamics in consumption: The average Rural MPCE for ST, SC, OBC and others was ₹ 3500, ₹ 4014, ₹ 4330, and ₹ 4754 respectively and average Urban MPCE for ST, SC, OBC and others was ₹ 6125, ₹ 5876, ₹ 6836, and ₹ 7887 respectively. MPCE is higher for others than for OBCs and then for SC/ST. A clear socio-economic gradient exists in consumption pattern. The Inequality is more pronounced in urban areas than rural (Table 4 and Fig. 5) (Thorat & Newman, 2010; Deshpande, 2011).

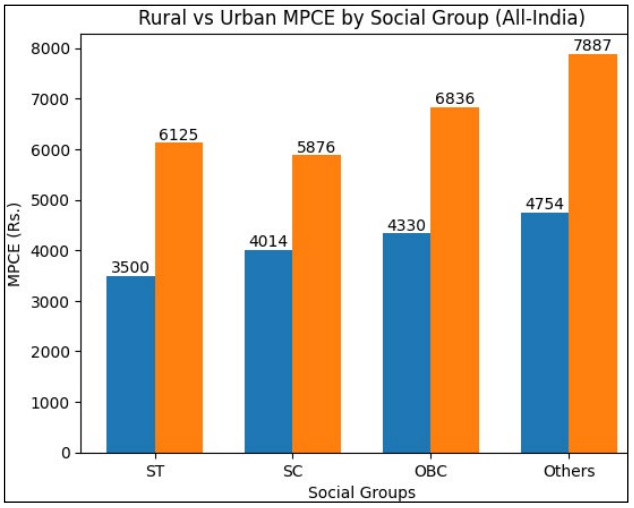

Fig. 5: Average MPCE (₹) by social group in 2023-24, major states

Table 4: Average MPCE (₹) by social group in 2023-24, major states

Major states	Rural					Urban				
	ST	SC	OBC	Others	all#	ST	SC	OBC	Others	all#
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Andhra Pradesh	4,404	5,373	5,605	5,886	5,539	6,384	6,843	7,282	7,677	7,341
Assam	3,945	3,921	3,989	3,954	3,961	7,023	6,078	7,159	6,930	6,913
Bihar	3,459	3,498	3,853	4,115	3,788	4,337	4,280	5,210	5,703	5,165
Chhattisgarh	2,663	3,228	3,089	3,509	2,927	4,219	4,570	4,800	6,300	5,114
Gujarat	3,802	3,895	4,073	5,183	4,190	5,893	5,984	6,445	7,985	7,198
Haryana	5,688	4,857	5,590	5,842	5,449	11,190	6,135	7,514	10,130	8,462
Jharkhand	2,584	2,950	3,386	3,454	3,056	4,817	4,053	5,394	6,572	5,455
Karnataka	4,760	4,793	5,090	5,720	5,068	6,050	6,697	8,071	9,668	8,169
Kerala	5,132	5,570	6,325	7,768	6,673	7,835	6,684	7,223	9,734	7,834
Madhya Pradesh	3,105	3,506	3,655	4,021	3,522	4,522	4,782	5,279	6,597	5,589
Maharashtra	3,225	4,095	4,349	4,689	4,249	5,444	6,033	6,644	8,290	7,415
Orissa	2,940	3,406	3,771	4,070	3,509	4,759	4,755	5,896	6,877	5,925
Punjab	5,186	5,212	5,964	6,900	5,874	4,039	6,196	7,083	8,304	7,383
Rajasthan	3,522	4,319	4,963	5,335	4,626	6,157	5,157	6,127	8,042	6,640
Tamil Nadu	4,996	5,528	5,999	6,362	5,872	8,278	6,851	8,493	9,290	8,325
Telangana	5,221	5,422	5,724	6,627	5,675	9,196	7,860	8,590	10,980	9,131
Uttar Pradesh	3,084	3,324	3,576	4,043	3,578	5,469	5,001	5,120	6,577	5,474
West Bengal	3,330	3,705	3,825	3,975	3,815	4,937	4,858	5,158	6,285	5,903
All-India	3,500	4,014	4,330	4,754	4,247	6,125	5,876	6,836	7,887	7,078

includes not reporting cases (i.e., those who have not reported social group) also.

Source: Household Consumption Expenditure Survey (HCES) 2023–24, NSS, MoSPI, GoI.

SUMMARY AND CONCLUSION

The analysis of MPCE data from HCES 2023–24 reveals a clear and persistent structural divide between rural and urban India. While consumption patterns across sectors are highly correlated, urban households consistently exhibit higher levels of expenditure and greater diversification, reflecting superior economic conditions and access to services. The findings confirm the applicability of Engel's Law, with rural households allocating a larger share of expenditure to food, indicating lower income levels. In contrast, urban households demonstrate a transition toward non-food consumption, signifying higher living standards. Consumption inequality remains a key concern, particularly in non-food categories, where disparities in access to education, healthcare, and other services are most pronounced. The urban–rural MPCE ratio of 1.67 underscores the magnitude of this divide. State-wise analysis highlights substantial regional disparities, with economically advanced states and union territories exhibiting significantly higher consumption levels. The strong correlation between rural and urban MPCE across states suggests that development policies must address both sectors simultaneously.

Overall, the evidence points toward a pattern of growth that is structurally linked but unevenly distributed. To ensure inclusive development, policy interventions must focus on reducing rural–urban disparities, improving access to non-food services, addressing regional imbalances in consumption and income distribution and targeting vulnerable social groups. Inclusive growth requires addressing both structural and social inequalities in consumption.

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