

Understanding the Sri Lankan consumer preferences: A system-wide analysis

Saroja Selvanathan¹ and E.A Selvanathan²

¹School of Economics, Griffith University, Queensland-4111, Australia.

²School of International Business, Griffith University, Queensland -111, Australia.

This paper identifies the major determinants of the Sri Lankan consumption characteristics using the system-wide approach together with the most recent consumption data. Estimates are obtained for the income and price elasticities for eight commodity groups. The elasticities presented in this paper are essential inputs in applied equilibrium models and in the application of the theory of tax reform. The summary of findings of the paper are: (1) On average, Sri Lankan consumers allocate about 62 percent of their income on food and about three fourths of their income on food, clothing and housing combined; the remaining 26 percent is divided into 4 percent on durables, 2 percent on medical care, 13 percent on transport, 4 percent on recreation and education and 3 percent on all other goods; (2) Sri Lankan consumption data supports the 'law of demand' and the 'Engel's Law'; (3) Based on the estimated elasticities, food and housing are necessities while clothing, durables, transport and recreation are luxuries; (4) Demand for all commodities are price inelastic; (5) The demand hypotheses, demand homogeneity, Slutsky symmetry and preference independence are acceptable; and (6) Income flexibility is estimated to be about -.5, which is well in agreement with many previous findings.

Key words: Consumer preferences; Consumption patterns; Commodity groups; Income elasticities; Sri Lanka