

Title: Prices, Inequality and Poverty: Methodology and Indian Evidence

Abstract: The contribution of this paper is both methodological and empirical. It proposes a methodology for evaluating the distributional implications of price movement for inequality and poverty measurement. The methodology is based on a distinction between inequalities in nominal expenditures, where the expenditures are either measured in nominal terms or a common price deflator is applied for all households, and that in real expenditures which takes into account the varying household preferences and differences in household composition in converting the nominal to real expenditures. Changes in relative prices will cause the inflation to affect different household groups differently depending on their household size and composition and their level of relative affluence. The empirical application to the Indian budget data sets shows the usefulness of the proposed procedures. The Indian empirical evidence is of particular interest since the period chosen (1993-2005) covered both first and second generation reforms in India. The results suggest that while rural poverty rates, in both nominal and real terms, fell sharply during this period, they were accompanied by an increase in both nominal and real expenditure inequality. In contrast, the urban poverty rates were mostly static over this period. Of further interest is the result that the price movement in both areas has been inequality reducing throughout much of this period. The study also contains a decomposition analysis of the movement in inequality and poverty rates. The decomposition is done both between family types and between social groups.