

The Effect of Income Inequality and Relative Poverty line on Durable Goods Purchasing Power

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Abstract

The aim of this study was to evaluate the spatial effect of income inequality, relative poverty, real per capita income growth, unemployment, real exchange rate and real interest rate on real purchasing power of durable goods using the generalized SAR-GMM-DPD spatial self-regression torque model with two-stage coefficients. Arellano-Bover / Bundell-Bond is a random dynamic band between provinces of Iran in the period 2006-2017. The results show that according to Dosenbury's theory of consumption theory, durable goods have a broken demand function; Thus, the first interval of the dependent variable with a coefficient of 0.009 has a positive effect on the purchasing power of durable goods. The first spatial interval of SAR is also negative and significant -0.007 which indicates the negative spatial dependence between the provinces of Iran, ie the effects of independent variables on the dependent variable have indirect spatial and geographical effects. Income inequality with a coefficient of -0.43 has a negative effect on the purchasing power of durable goods of households. The relative poverty line with a coefficient of -0.06 has a negative effect on purchasing power, and as the relative poverty line moves to the upper deciles of income, the purchasing power of durable goods decreases.

Keywords: Real purchasing power of durable goods, Income Inequality, Relative Poverty Line and, Arellano-Bover / Bundell-Bond -Two-Step Band Ratio, GMM-DPD-SAR

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1. Introduction

In the Iranian economy, one of the most important goals of governments is to reduce poverty in the inter-provincial space, especially in deprived and remote provinces. Thus, government social support can be considered as part of a comprehensive and integrated set of measures to help lift households out of poverty (Araya M. Teka & et al 2019). So that economic growth and a serious belief in growth along with economic justice has always been the focus of policy makers (Tasan & et al. 2020). In different parts of the world, households do not have enough financial resources and resort to borrowing to maintain their living standards, which increases the income gap between sections of society (Papadopoulos 2019). In this regard, in order to alleviate poverty, despite the efforts made in Iran, this problem has not yet been resolved. In the past decades, the country has faced many economic problems; Increased inflation, currency fluctuations, sanctions, unemployment, etc., which has shown its consequences on poverty and income inequality (Fotros and Shahbazi 2014). In order to reduce inequalities and relative poverty among the provinces of Iran, part of which has been due to policies concentrated in the capital and some specific provinces, land and geographical planning has been designed based on investment theories (Papli Yazdi 2004). Spatial planning is the most important government policy in the Iranian economy to reduce inequality and poverty in spatial and geographical dimensions.

2. Introduction of data and research method

Spatial econometrics has been used to assess the effects of income inequality and the consequences of the poverty line on the purchasing power of genuine durable goods in neighboring provinces.

In this model, household purchasing power is considered as a dependent and key variable of this research. In order to specify the model, it is necessary to determine the variables affecting the dependent variable based on theoretical principles, such as income inequality, relative poverty line 50%, real exchange rate, real interest rate, unemployment rate and include real per capita income growth as explanatory variables. The data are annual and in the period 2006-2007 and have been adapted from the databases of the Central Bank, the Statistics Center and the Ministry of Economy and Finance.

3. Test results

The aim of this study was to evaluate the spatial effect of income inequality, relative poverty, real per capita income growth, unemployment, real exchange rate and real interest rate on real purchasing power of durable goods using the generalized spatial self-regression torque model SAR-GMM-DPD with two-stage coefficients Arellano-Bover / Bundel- Band Stochastic dynamics among the provinces of Iran in the period 2005-2017. The results show that the first interval variables of the GMM dependent variable are positive and significant,

which indicates the dynamics of the model and show that one of the variables affecting the purchase of durable goods by Iranian households is their purchasing power in previous years. The first SAR space interruption is also negative and significant, indicating that there is a negative spatial dependence between the provinces of Iran. Income inequality with a coefficient of 0/43 has a decreasing effect on the purchasing power of households, and the higher the income inequality, ie the income gap between the minimum income and the maximum income, the lower the purchasing power of households. The relative poverty line has a negative effect on purchasing power, and as the poverty line increases, that is, the distance between households and the set minimum income increases. The purchasing power of households decreases by a factor of 0/06. The most negative effect is the exchange rate with a coefficient of 5/73, with the increase of the exchange rate, the value of the national currency decreases and leads to inflation, thus reducing the purchasing power of the household. Most of the durable goods or their parts are imported, which with the increase of the exchange rate, the import of these goods decreases and reduces the production, Therefore, the price has increased and as a result, the purchasing power of Iranian households has decreased. And the most positive effect was the growth of per capita income with 8/92 on the purchasing power of durable goods. Real interest rates with a coefficient of -0/03 have the least effect. With a decrease in bank interest rates, the rate of bank facilities also decreases, and finally, with a decrease in production costs, a significant boom appears in production units. Thus, it is expected that with the correct implementation of this policy and considering its various dimensions, increase in production, employment and welfare of society will be achieved, and as a result, purchasing power will increase. Unemployment rate with a coefficient of -0/15 has a negative impact on purchasing power. According to economic theories, when this variable increase, the purchasing power of the household decreases due to the decrease in income level.

4. Conclusions and suggestions

It is possible to increase the incomes of the provinces in a balanced way by evaluating the infrastructure, capacities and capabilities of the provinces and identifying the industrial and geographical capabilities (land spatial planning plan). It seems that the focus of the provinces on regional and geographical capabilities can lead to an important change in the economic growth of the provinces. Reducing inequality and poverty in geographical and geographical dimensions will lead to lower unemployment and real per capita income growth will lead to increased purchasing power of durable household goods.

In this regard, the following suggestions are presented:

- Considering the negative spatial dependence between the provinces of Iran, with accurate assessment and obtaining reliable information in identifying the capacities and capabilities of the provinces (land spatial planning plan), we seek

to achieve territorial equality and justice and eliminate regional inequalities in the country so that purchasing power All members of society have increased in proportion.

- Targeted planning on investing in existing capacities and potentials in different regions of the country and also paying attention to the principle of sustainable development can reduce income inequality, reduce unemployment and increase income in all regions of the country, which in turn minimizes inequalities in The level of society and the positive impact on the purchasing power of durable household goods.

- Using all the capacities, capabilities and advantages of the country can increase production and reduce imports, which in turn prevents the outflow of currency from the country and helps reduce currency fluctuations.

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