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| Country | Azerbaijan |
| Title | The economic relation between the consumption expenditures and the national income growth in the market economic system of Azerbaijan |
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After gaining its independence, the Republic of Azerbaijan establishes its independent economic development models not only in line with solution of the existing economic and social problems, but also taking into account the geopolitical processes arisen all over the world.

The goals of the economic reforms, their tactics and strategy to be implemented were determined, so considerable successes were achieved despite of some problems occurring within the period of transition into the new economic system in Azerbaijan, though being undergone an occupation by Armenia. In the course of this current period the rate of GDP rose and the rate of employment increased vividly.

The main factor determining the production, as well as the level of the employment, including the labor productivity is the capacity of the total demand. The estimates related to the realization level of offer of goods and services produced by the manufacturer determine the degree of usage the aggregate production potential capacity. The total demand of the country in any period may be given as:

$$D=C_2+I$$

In the economic reference it is also identified with the national income produced in the country. Here C_2 means the consumption expenditures of society, I – production investment expenditures of society. Consumption expenditures of society (C_2) contains the consumption expenditures of the population (HC_2) and state (GC_2) and investment expenditures (I) of the society include the investment expenditures of society (MI) and the state (GI).

The state consumption expenditures are divided into the transfer expenditures and operational expenditures correspondingly. So, not taking into account the investment expenditures of society, the consumption demand will be C_2+GC_2 . Here GC_2 specifies the consumption expenditures of the state.

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The consumption reflects at whole the production, the division and the exchange processes as the final phase of the production process. Besides this we may understand the consumption concept as the usage of the goods and services providing human needs.

Therefore, the consumption expenditures constitute the most important expense part within national income. Besides this, the consumption may be expressed as a sum of the expense implemented with the purpose of purchasing of goods and services providing the need of people.

Generally, it should be recognized that three fourth of the national income is spent for such expense all over the world. The consumption expenditures are of stable character in comparison with the investment costs. Since, in case of unavailability of important depression in the economic life, the consumption expenditures maintain a certain stable level. Besides this, some oscillations may occur in the level of national income amount. But its reason is mainly related to the investment expenditures reduce and increase.

There are some factors determining the rate consumption of society that were divided by Canes into objective and subjective factors.

The objective aspect, determining consumption expenditures is the National Income. In other words, the consumption expenditures is the function of the National income.

$$C_2=f(NI)$$

In fact, the determinator of the consumption expenditures is not the whole of the national income, but only a part of it, namely $C_2=f(HC_1+GC_1)$ incomes providing consumption expenditures are consumed. The consumption expenditures of the society are determined by the capacity of income, value and volume obtained and created in the production distribution and re-distribution process of household (HC_1) and state (GC_1). I.e., the main determining factor of the consumption expenditures of the community includes the net disposable income of the state, public organizations and household. The consumption expenditures of the community consist of expense of HC_2 – people, GC_2 and public organizations carried out on the basis of this cost.

So, the consumption expenses of the community is $C_2=HC_2+GC_2$. If we look at the statistics, we will see that it was $HC_1+GC_1 < C_2$ from 1995 up to 2001, that's the difference of their consumption expenses and disposable incomes was shown in a negative balance. If this difference was 62.5% of the incomes remained in their order in 1995, but it was 44.1 % in 1997. This indicator was up to 51.9 % in 1998 and 1% in 2000. This dynamics showed itself in the percentage share of non-refundable income volume. So, as the percentage share in Net National Income of the

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difference of incomes remaining in the order of state and household with their expenses reduced from 41.4 % to 30.7% in 1995-1997, but, it increased up to 38.1% in 1998 and was 0.8 % in 2000.

Thus, percentage share of disposal incomes of the state and household and their disparity expenses went down from 41.4% to 30.7% limit in 1995-1997 years, it rose to 38.1% limit in 1998, and it was 08% in 2000. But only after 2001 $HC_1+GC_1>C_2$ that is to say disposable incomes of the state and household predominate according to their consumption expenses.

We can obviously see from the above mentioned analysis that after a definite limit the national income can not be used completely, but a its definite part. The main factor is to learn the factors defining the share in the capacity of the consumption expenses (i.e. the consumed part of the national income). The percentage share of consumption expenditures in the capacity of national income determines the average inclination of the consumption as : $IOM = \frac{C}{MG}$

But growth of national income is not parallel with the growth of consumption. After a definite limit provision with the level of (C_1+GC_2) the other part of it is used as a saving. That is the growth of consumption expenses incline falls behind from the growth of national income. At that time the latest incline to a consumption becomes as: $ISM = \lim_{\Delta MG \rightarrow 0} \frac{\Delta C}{\Delta MG}$

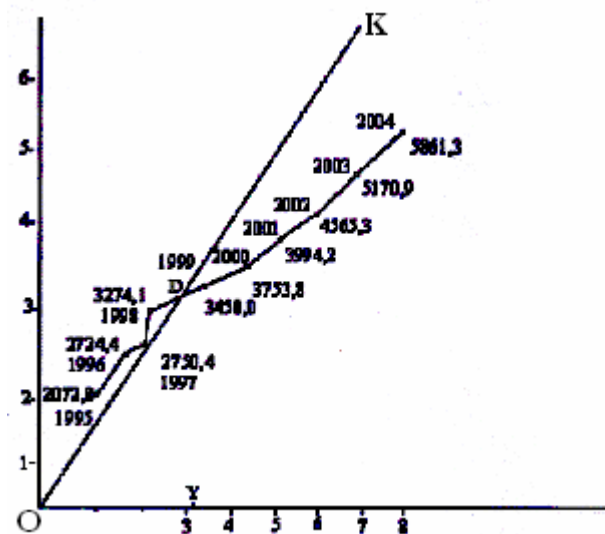
Though the curve of consumption expenses was near the OK straight line of 45 degree showing graphically the capacity of incomes ensuring the consumption requirement of population in 1997 but it was below from the line only after 1999. If the curve showing the consumption expenses is in the left from the D point crossed with OK straight line, it shows that the consumption expenses are more than income. This fact shows that the saving of economic system is negative and if it is in the right it shows it's contrary. It shows that the net saving was negative till 1999 in our country.

The national income, that is net cost created by society did not compensate its consumption expenses, namely it was less than it. The country was indebted either for ensuring consumption standards in the minimum level or had over spent the income gained ahead of time. If the obtained national income was spent wholly, then the average consumption incline was equal to marginal consumption inclination. The percentage share of negative balance between the produced national income and consumption expenses of society in the national income at the disposal of (DNI) increased to 11.5% limit from 7.5% from 1995 to 1999 excluding 1997. In 1997 this guideline lowered to the level of 0.2 % decreasing in an unusual form.

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When we take it in absolute figures, we see that if this difference was 144.7 mln. in 1995, but it reduced to the volume of 5 mln. in 1997, but in 1998 this difference was 338.3 mln., increasing 1.3 times in comparison with 1995.

After D point we see that, the curve of consumption function placed under 45 degree angle. It proves that the income created in the country not spent, but some parts have been accumulated. During these years the net domestic income remained in the order of the country has increased 52.3%. So, namely after 1999, DNI prevailed over the production expenditures in our country, that's $NI > C_2$ – the surplus of the generated created cost from the consumption cost was provided, as a result of which the positive accumulation was obtained in the country.

If we pay attention to the graphic, we can see that it increases very rapidly up to D point but after D point, this increase comparatively reduces. From this point of view, as the income increases, it is connected with the increase of consumption expenditures at the beginning, but each increase of income the consumption share reduces. Since, as income increases, the marginal consumption inclination is reduces. Therefore, at the starting-point of the curve the marginal consumption inclination is higher, but it reducing gradually to the right. In the linear consumption function the middle consumption inclination is higher than 1 (100%) in the left of D point. In this case the community spends more than the accumulated income and the saving becomes negative.

But the middle consumption inclination is less than 1 (100%) from the right of D point. That is the community had provided self consumption expenses and obtained a certain saving. When we analyze the graphic of the consumption function, then we determine the equilibrium income, inclusively. The co-ordinate (Y_0) on the abscissa axis of D point is the equilibrium income of the

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state. The amount of the income expresses the optimum volume of the people's demand with payment ability.

By moving away from this point the major part of national income is not consumed, but is used as saving. If the income of people is less than this, it doesn't provide the consumption expenses of people. The minority of payment ability of these expenses than the goods and services will oblige producers to lessen the volume of produce. By this way the production of the national income range will delay. The majority of these expenses payment ability than Y_0 causes the over spending (demand) from the goods and services produced in the country and it creates stimulus for increasing the consumption in the condition of other factors for investment activity. So, the level of national income will increase to Y_0 and more than sometimes, reduces and increases for other reasons created in the consumption expenses cause slides in the production function. As a result of it the equilibrium income may change the volume of the incomes provided the payment ability.

The curve of consumption expenses and the co-ordinates of 45° point intersection axis is situated between 3300 mln. and 3400 mln. manat, that is to say $3300 < Y < 3400$. The balance of the expenditures with net cost and net product (goods and services) made in the country was only provided in this point. For the sake of the community development the minimum amount of the consumption expenses must not be reduced form this amount.

That is, the amount of the consumption expenses per head must not be reduced from per head amount of this amount. Since, less expense than this amount may cause the of social economic situation complication and may reduce the consumption requirement and as a result, it influences on the investment climate negatively.

Table

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------------|
| $C_2(=HC_2+C_2)$ (mln manat) | 2072.8 | 2724.4 | 2750.4 | 3274.1 | 3450.0 | 3753.8 | 3994.2 | 4565.3 | 5170.9 | 5861.3 | 6579.7 |
| NDNI of the country (mln manat) | 1928.1 | 2477.6 | 2745.4 | 2935.8 | 3838.6 | 4590.1 | 5044.8 | 5688.7 | 6765.1 | 7821.9 | 10871. 9 |

Besides it, less income than this level prevents from widening the economic activity and obtaining positive saving of the community.

So, D point where the graphic of the function of consumption expenses and the function of the household incomes cross determines the minimum volume of the householding consumption

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budget and co-ordinates on this abscissa axis of this point determining the minimum share of the consumption expenses in the amount of national income.

So, the main condition of stimulating the increase of community's national income is to provide the people's income in the minimum level of their need in Y.

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