

# Module 7: Special Considerations for Actual Individual Consumption

Training Workshop on Price Statistics for the Production of Purchasing Power Parities and the Integration between CPI and PPPs in the Arab Region

07-08 June 2021

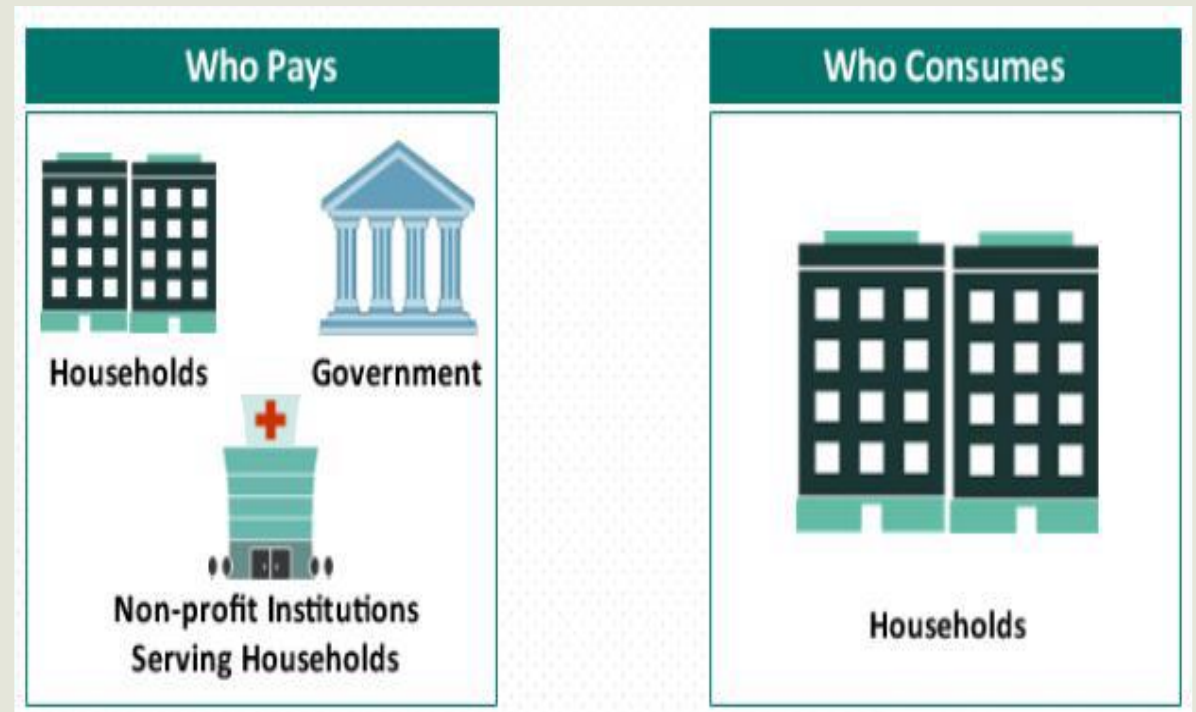
# Objectives of Module 7: Special Considerations for Actual Individual Consumption

- ➔ Difference between *Household Final Consumption* & *Actual Individual Consumption by Households*
- ➔ How Actual Individual Consumption is derived
- ➔ Concept of Full Market Prices

# Difference between *Household Final Consumption* & *Actual Individual Consumption by Households*

## Goods and Services Actually Consumed by Households:

- In some countries, *Governments* or *Non-Profit Institutions* serving households (like Red Cross, trade unions...) provide a significant part of the *health and education services* consumed by households.
- In other countries, households' themselves purchase, from market producers, all – or a great part– of the *health and education services* they consume.

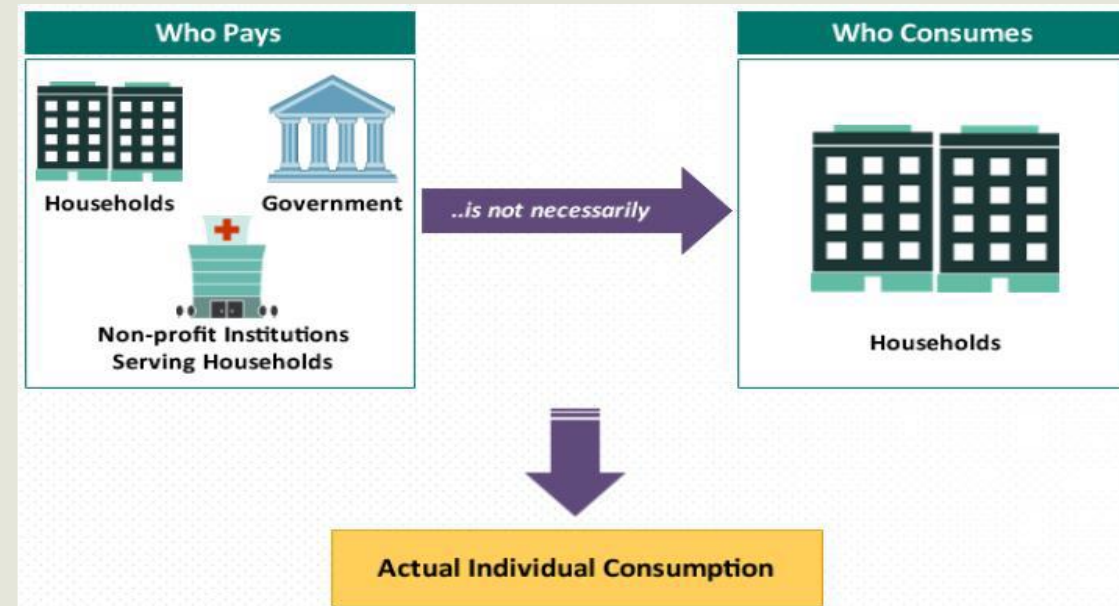




# Difference between *Household Final Consumption* & *Actual Individual Consumption by Households* (cont'd)

## Goods and Services Actually Consumed by Households: (cont'd)

- Describing the material welfare of households by only valuing the services paid and acquired by households directly may result in a misrepresentation of the true material welfare of households in some countries.



For example, in countries where the *Government* or *Non-Profit Institutions* serving households are the main providers of *health and education services*, **households will appear to consume a smaller volume of goods and services than households in countries where households pay directly for the bulk of the services they consume.**





## Difference between *Household Final Consumption* & *Actual Individual Consumption by Households* (cont'd)

### Goods and Services Actually Consumed by Households: (cont'd)



This measure is called ***Actual Individual Consumption***

It provides a more accurate measure of the material welfare enjoyed by households in different countries



## How *Actual Individual Consumption* is derived

### Goods and Services Actually Consumed by Households: (cont'd)

- Actual individual consumption of households is measured by the value of *all* of the consumption goods and services acquired by resident households in the country being studied.
- Under ***Actual Individual Consumption***, the value of 3 sets of goods and services can be included:
  1. Those acquired directly through expenditures incurred by the households themselves
  2. Those in the form of transfers in-kind received from the government, and that were produced by the government itself
  3. Those in the form of transfers in-kind received from either the government or non-profit institutions serving households, and that were purchased on the private market by one of these actors to later transfer or provide them to households.



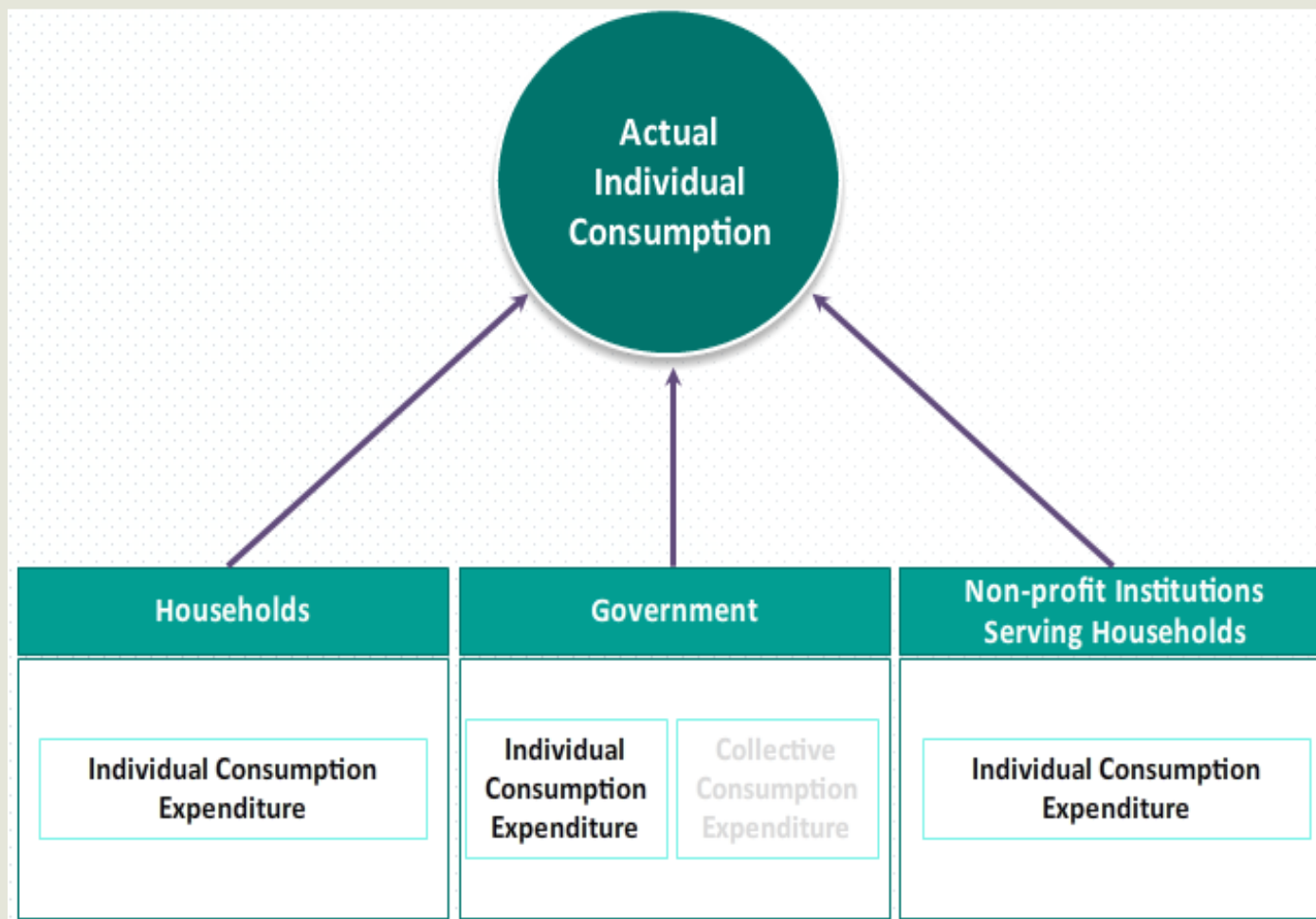


## How *Actual Individual Consumption* is derived (cont'd)

### Goods and Services Actually Consumed by Households: (cont'd)

It is important to note that:

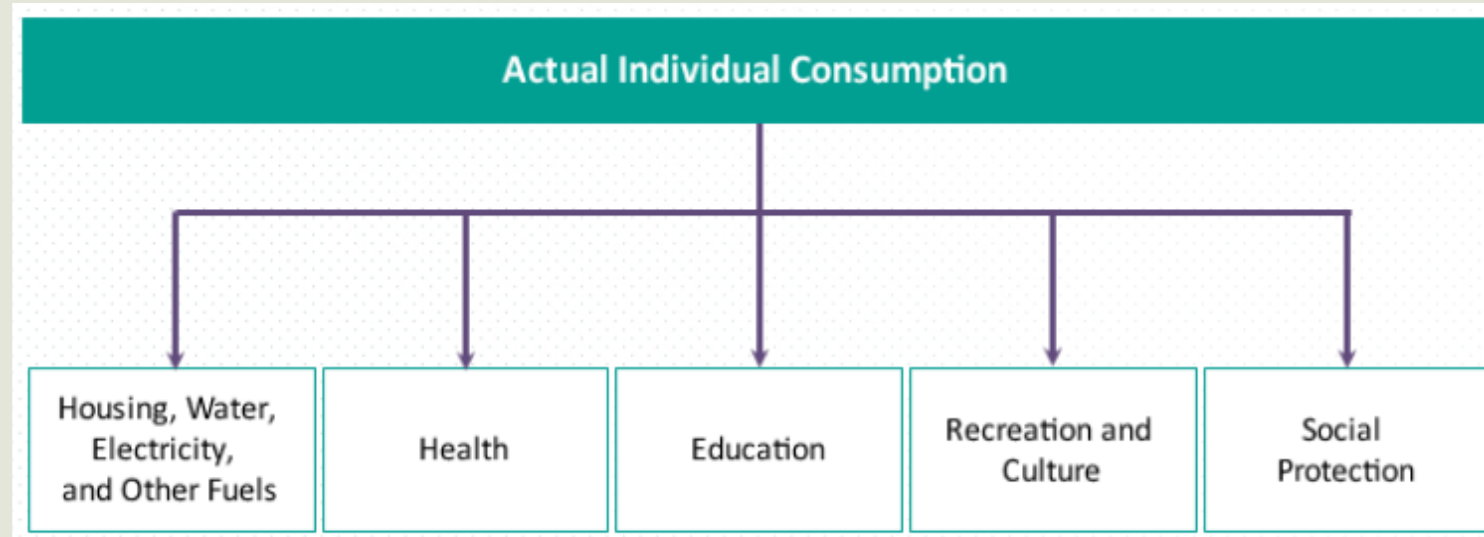
- Actual individual consumption excludes Government's *Collective Consumption Expenditure*
- *Transfers in-kind* provided to households by *Government units* or *Non-Profit Institutions* serving households are provided for free or at subsidized prices, regardless of whether purchased on the market, produced by *Government units*, or *Non-Profit Institutions* serving households.



## ➔ How *Actual Individual Consumption* is derived (cont'd)

### *Actual Individual Consumption* and the ICP Classification:

- PPPs for certain basic headings are estimated based on the concept of ‘actual individual consumption’ rather than ‘household final consumption expenditure’.



- For example, PPPs for “Housing, Water, Electricity And Other Fuels”, “Health”, “Education”, “Recreation And Culture”, and “Social Protection” are calculated on the basis of *Actual Individual Consumption*.





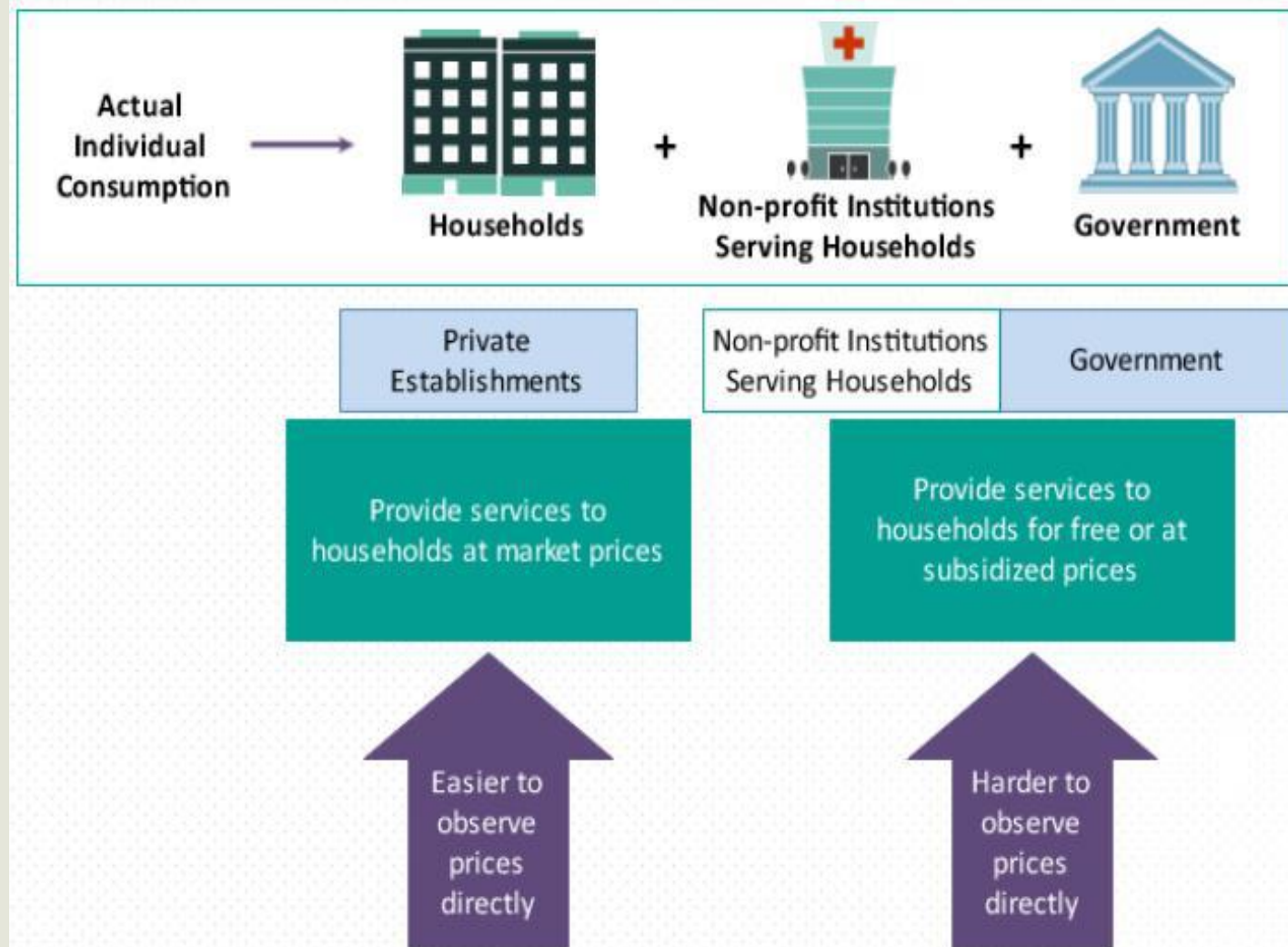
## *Actual Individual Consumption Requirement: Full Market Prices*


- As mentioned before, *Actual Individual Consumption* is given by the sum of the value of *Individual Consumption Expenditures* by 3 actors: *Households* themselves, *Non-Profit Institutions serving households*, and the *Government*.
- To maintain consistency with this sum, the prices underlying PPPs estimated on the basis of actual individual consumption must be full market prices, reflecting the sum of the prices paid by each of the 3 actors in their own separate purchase transaction.
- However, prices for services **actually** consumed by households cannot always be obtained by simply observing the purchasers' price to be paid by the buyer, as is done for most goods and services purchased by households in private establishments.



# Actual Individual Consumption Requirement: Full Market Prices (cont'd)

This is due to *Non-Profit Institutions* and the *Government* sometimes acting as service providers to households by offering *education, health, or other services, for free, or at subsidized prices.*





## *Actual Individual Consumption Requirement: Full Market Prices* (cont'd)

- The *Full Market Prices* needed to derive PPPs for *Actual Individual Consumption* are obtained by establishing the total amount of money received by the sellers of the good or service.
- This requires adding the portion of the price paid by households, if any, to any other portion paid to the market supplier by the *Government* or the *Non-Profit Institution* serving households that is purchasing the good or service, to later transfer it to households.



# Actual Individual Consumption Requirement: Full Market Prices (cont'd)

Thus, *Full Market Prices* may not reflect the prices actually paid by consumers, but rather the total amount received by the seller of the good or service.

**Full Market Price = Total Amount Received by the Seller of the Good or Service**



**Priced paid by household,  
if any**

**Plus**



**Priced paid by  
Government or Non-Profit  
Institutions serving  
households, if any**

# Quiz Time

- What differentiates Actual Individual Consumption by Households from Household Final Consumption?

The background is a dark green chalkboard with various white chalk drawings. On the left, there is a globe on a stand. Above it are several circular diagrams, possibly representing orbits or data points. In the center, there are several rectangular shapes, some resembling books or papers. On the right, there is a detailed drawing of a microscope. The overall theme is educational and scientific.

**Thank You**