



# Consumption and the Consumer

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## ABSTRACT

The consumer is that trader responsible for consumption act of some final goods or services who decided what must be produce and in what cantity, being the one who make the economic mechanism to move. Consumption is in close connection with the production of goods and services, exerting an active role, any activity should be complete by consuming its results; consumption creates the motivation to achieve economic and non-economic activities. The traditional approach to consumer behavior starts from hypothesised that all consumers seek to maximize the aggregate utility obtained of satisfactions resulting from consumption of goods taking into account the budgetary constraints given by income that consumer has and the prices of these goods. In the conditions of modern economy, consumption can be increased by diseconomies. If consumption depends on permanent income, revenue growth effectively does not exert influence on consumption only to the extent that this increase of income leads to increasing permanent income consumer. Consumption is viewed as an active agent of economic life, it is not only a consumer of goods and services but also a producer.

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## Introduction

As a producer, the individual manifests as a bearer of the goods and services offer that he produces by combining the production factors, by consuming them. The producer aims to maximize the obtained results concretized in the difference between the incomes cashed by selling the produced goods and the expenses made as with the consumed production factors.

Any producer is also a consumer; he has to satisfy the multitude of his necessities like any other individual. We cannot say the same thing about the demand bearer consumer because there are population categories that are not consumers of goods and services without being producers.

The consumer is that economic agent responsible for the consumption act of certain final goods or services. He decides what he has to produce and in what quantity by his needs, putting in motion the economic mechanism.

There are many similarities between the behavior of the consumer and the producer, elements from the first one manifesting in transformed forms in the second.

The consumer theory proposes to explain the way in which the individual distributes his resources between the available goods and services to satisfactorily maximize the production by their consumption. Obtaining the maximum satisfaction offered by the consumption of goods and services processed with the help of the limited resources that form the individual's budget, defines the equilibrium condition of consumer.

The traditional approach of the consumer's behavior starts from the hypothesis that the individual or the consumer unit seeks to maximize the U aggregated unit, obtained from the satisfactions resulting in the consumption of x, y, z goods taking into account the budgetary constraint given by the income that the consumer has and the prices of these goods. The demand for goods and services depends on the variations of the real income and of the relative prices of goods. When demand changes cannot be explained by the variations of prices and incomes, they are assigned to the change of prices or tastes.

These three factors – prices, income and tastes are the basis for explaining the consumer's behavior.

The traditional approach considers the consumer's preferences and tastes as exogenous variables that it does not take into consideration to explain the consumption behavior. The weak point of the accepted theory of choice is the degree to which it bases on the variations of tastes to explain the behavior in the situation when it cannot also explain how tastes are formed and it cannot also predict the effects.

The new theory of consumer shows that time constraint is exerted on the consumer, time is considered a rare resource. Putting the issue to measure the time value, it was reached the conclusion that

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measurement may be performed by the opportunity cost, the assembly of satisfactions that could be obtained by giving the consumed time a different use. Time becomes together with the other goods and services, the production factor of satisfaction.

The individual does not have a passive role in the modern vision in the consumption act, being capable of inter-temporal arbitrations and the level and structure of consumption are determined not only by the fact of income, but also by his anticipations on the future incomes.

The consumer is viewed as an active agent of economic life, not just a consumer of goods and services, but also a producer. The new approach considers as main objects of consumer's choice different units, goods from which can be directly obtained the unit. These goods are produced by the consuming unit through the productive activity to combine the goods and services bought from the market with a part of the own time of household.

The structure linking goods to consumers' preferences is an objective one. This means that all the features of a good are the same for all the consumers and the given measurement units have equal quantities so the personal element in the consumer's choice only consists in choosing between the collections of goods not in the allocation of the characteristics of certain goods.

The objective nature of the goods-features relationship plays an important role and gives us the possibility to make the difference between the objective and particular reactions.

We may incorporate many of the intrinsic qualities of individual goods by passing to multiple features. In order to determine and measure the consumption measures it is necessary to take into account the product prices and the size of the consumer's income and the combination of goods and services depends on prices and incomes that the consumer chooses and the consumption profile that he has access to.

The consumer makes a synthesis between needs, prices of goods and services and the budget he has, taking the decision that suits him best. He optimizes his consumption; he chooses the combination that satisfies him more from the multitude of preferences at the limit of the resources he has, reaching the equilibrium situation.

The base to form the model of the optimal choice of consumer is the hypothesis referring to the fact that this has an income, the prices of goods are given and the quantities of goods cannot be negative.

The consumer's decision manifests by choosing those combinations of goods that simultaneously respond to two criteria: the utility criterion headed to the preferences specific to consumers and the tendency to maximize satisfaction; the commercial criterion determined by the report between consumer's income and market prices.

The overall behavior of the consumer is coherent and rational – he looks for an optimal solution by simultaneously applying the decisional criteria, solution corresponding to that combination of goods maximizing satisfaction and is situated in the maximum possible level of the purchasing power offered by the consumer's incomes.

The choice optimality is obtained when the report of marginal utilities of the two goods equals the report of prices of the two goods. Because the report of marginal utilities is the marginal rate of substitution of the goods, the optimal conditions are interpreted as equalities between the marginal rate of substitution and the relative prices. In order to obtain the optimal choice, it is necessary that the report between the marginal utility and price to be the same for all goods that make the optimal package, the value of this report being even the shadow price of consumer's income.

### **Consumption - a key factor for economic recovery Romania**

Economic growth in all countries is based on consumption, whether it is domestic consumption or export about (which translates to consumption of individuals in other countries than those that produce goods in question). Accelerated consumption in developed countries has been the engine of growth of the world economy after World War II. In the current global economic context, it is therefore normal that concern financiers and politicians tend to move at reducing the aggregate. Given that prices for raw materials and basic foods have an inflationary effect that occurs worldwide buying power effectively to consumers fell in most countries, and the effect is the tightening of expenditure "unnecessary" - which represents a large part of the cost of consumer goods. Theory "facade consumption" launched by the American economist Thorstein Veblen in 1899, retains its topicality with great power nowadays. Veblen argued that higher social class exponents resort to eating facade as a means to assert that social class membership. If the subject's work Veblen was to detail the components of this type of drug use and to explain the factors that it generates for us today is important to understand that a blanket growing range of consumers in developed countries, but also from countries in the developing world use the accumulation of goods and service consumption that have inherently need to show the outside "welfare".

The consumption is now the main driver of growth in Romania, after a long period of stagnation that followed the global crisis - during which domestic consumption in Romania decreased by about 10%. Upward trend clearly illustrates confidence in the economy higher population levels and increasing real wages.

In Romania there is a structural imbalance in terms of food consumption, and quality deficiencies in production and marketing of food. At the same time, the agricultural sector, although it has favorable natural

conditions to cover at least the internal consumption needs, not the entire population ensures a rational diet and some food prices are not accessible to vulnerable groups. Production for own consumption is high, especially in rural areas and cities to supply basic foodstuffs are imported.

It is therefore necessary to change policies and instruments, in accordance with market principles and with EU regulations in the field, consumerist mentality and appetite for short-term profit maximization. To this end it is necessary in the next period, a deeper analysis of the factors influencing the developments signaled the establishment, on this basis, economic policies that stimulate a significant increase in resource productivity.

In the last period Romanian economy was strongly raised by increasing domestic consumption.

Romania's economic performance in recent years has been higher than expected, marking a growth of 4.2%, although prospects for the future remain quite optimistic.

If Eurozone keeps recovery on the same coordinates, the prospect of Romania's GDP growth is 3.1% in 2015 and 3.2% in 2016, with the possibility of exceeding these levels after 2017.

Internal consumption grew at a real rate that has not been touched since 2008, increasing 2.6% quarterly in the last quarter of 2014. These encouraging data have continued this year, when there was an increase in wages on average by almost 7% in January and February compared to the same period last year.

Internal consumption has growth prospects over 4% in 2015 after expanding 5% in 2014. The significant increase in salaries of over 6%, with low inflation during this period strengthened the purchasing power of Romanian consumers.

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In the last period Romania enjoys sustained economic growth, unlike other European countries. Internal consumption is the main factor in this favorable situation, but contribute greatly and fiscal easing and low inflation. And in the Eurozone, I believe that all consumption is a key factor for economic recovery recorded in recent years.

Unlike most European countries, Romania can enjoy sustained economic growth and a low unemployment rate. According to experts, domestic consumption continues upward direction outlined in early and stays, and the end of the year, the main engine of growth in Romania. At the same time, contribute to the big picture very low level of inflation and recent tax cuts.

Although the pace of quarterly GDP growth in Romania slowed to just 0.1% in the second quarter of 2015 (compared to about 1% in each of the three previous quarters), annual growth continued sustained pace, reaching 3.7% - compared with 3.8% in the first quarter of the year. Growth was predominantly driven by consumption and investment but maintained their recent ascent. Real income growth, boosted by lowered inflation and a gradual decline in unemployment, will boost consumption during the last months of 2015 and 2016. In addition, tax cuts it could strengthen more disposable income.

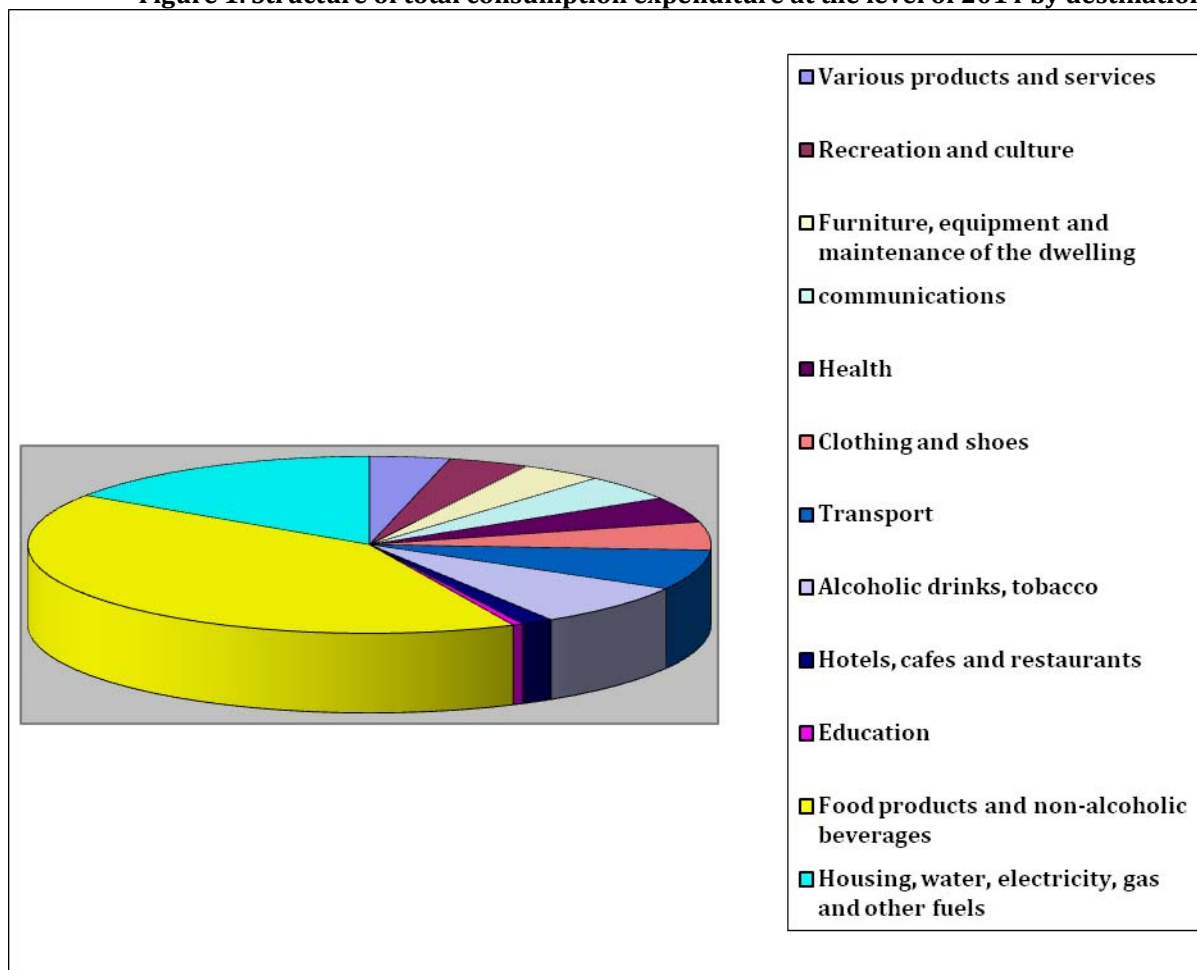
The New estimates of experts show GDP growth of 3.5%, up 0.4% compared to June 2015. The estimate for 2016 is provided for a further increase of 3, 7% due to strong domestic demand and net exports to improve the balance. For the period 2017-2019, the pace will slow down, the average stabilized at about 3% per year.

Regarding consumer prices at the end of 2015, compared to the end of 2014 were lower by between 0.7% - 0.9%.

### **Some ideas on how to split consumer spending in Romania?**

More than 70% of the expenditure of a household monthly consumption of Romania goes to food, utilities and fuel. Conversely, the less money remains for education, 0.5%. Thus, total costs average consumption per household in Romania is of 1,603 lei, of which 662 lei are used for purchases of food, 120 lei for fuel, while health are only 75 lei and education 8 lei based on the National Institute of Statistics (INS) for the year 2014. total consumption expenditure represents the largest share of total expenditure, followed by taxes, investments and others.

**Figure 1. Structure of total consumption expenditure at the level of 2014 by destinations**



Sou

rice: INS

"The households' expenses for health (4.7% of the consumption expenses) and especially with education (0.5%) registered a low level especially because of meeting those needs of household members using the most public services from which they benefit in the social security system or free "

Some characteristics in terms of size and structure of consumption expenditures are determined by the area. Thus, while the level of average monthly household consumption expenditures, is higher in urban areas compared with 444.5 lei, the food consumption is higher by only 34.2 lei. This stems from the fact that in rural areas, 45.6% of the food consumption expenses represent the equivalent consumption from own resources, while in urban food consumption from own resources covered 19.6% of the food consumption expenses.

According to the standard classification destinations in consumer spending, food and soft drinks roughly held in 2014, on average 41.3% of household consumption

The largest part of household expenditure is allocated for consumption. The size and structure of consumption expenditures of households are direct function of income level. There are also other factors that differentiate the level and structure of consumption expenditures, factors whose effects are cumulative in households according to different features.

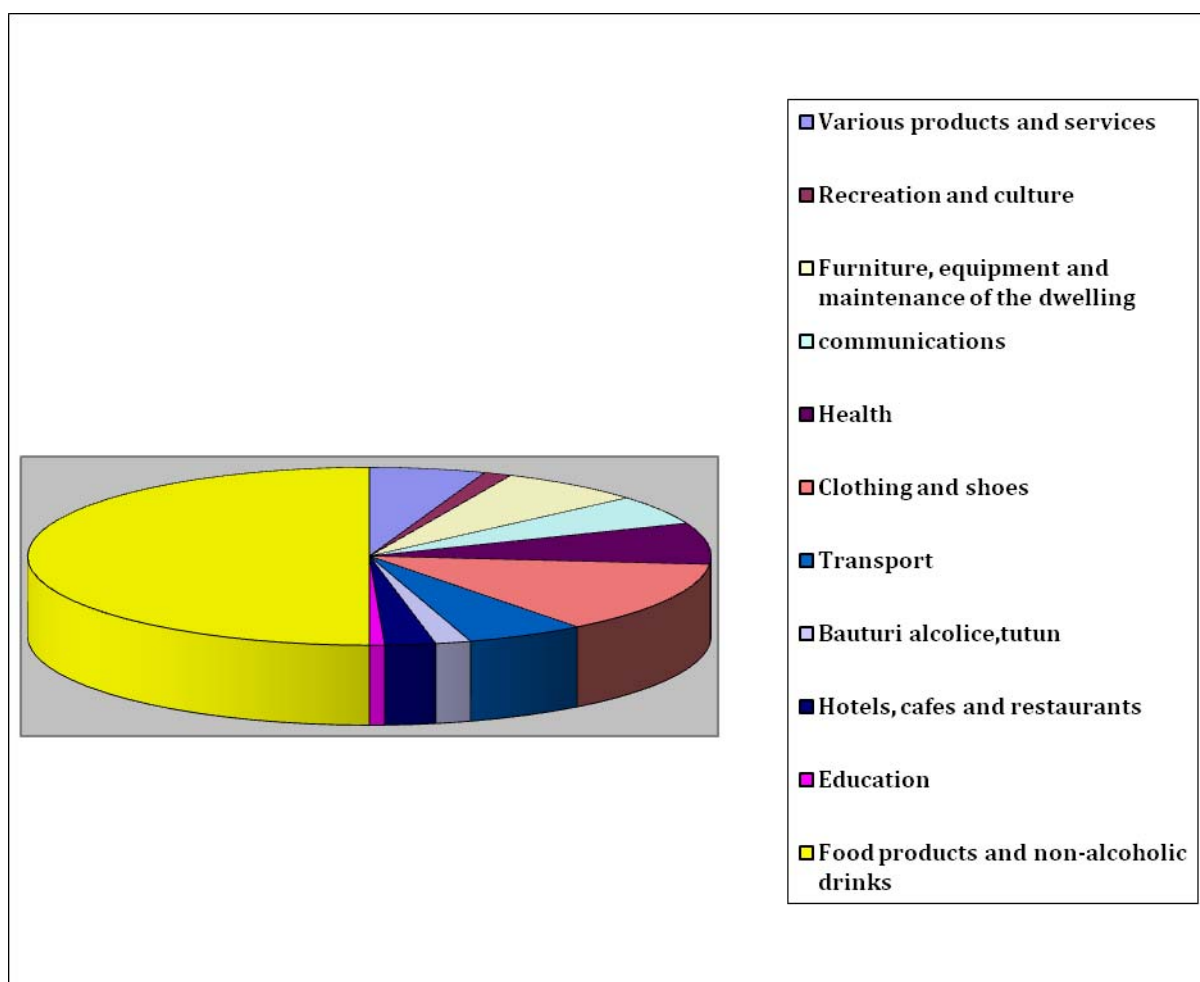
The total consumption expenditure include, to varying degrees, two parts purchases in the market, which means spending money and the value of the consumption from own resources.

In the years 2015 average monthly consumption expenditure in the second quarter of the population, constituted in average per person 2075.6 lei, increasing compared to the same period last year by 14.8% (see Annex Table 4). In real terms (adjusted to consumer price index) population spent on average by 6.3% compared with the second quarter of 2014.

The largest part of the expenditure was to cover food consumption needs - 41.9% (44.9% in the second quarter of 2014). Home care a person on average allocated 17.9% of total consumption expenditure (- 0.4 p.p. compared to the second quarter of 2014), and clothing and footwear - 11% (+ 0.7 p.p). Other expenses were directed health (6.3% vs. 5.5% in the second quarter of 2014), transport (4.7% vs. 4.4%), communications - 4.5% (previous year) housing facilities (4% vs. 3.2%), education (0.6% versus 0.9%) etc.

On average consumption expenditure of urban population in total amounted to 2531.1 lei per month per person, respectively 809.6 lei or 1.5 times more than in rural areas.

In urban areas, to ensure food consumption, the population spent 39.3% of monthly consumption expenditure (42.6% in the second quarter of 2014), and in rural areas - 45% (47.4%). The urban population spent more home care (18.3% versus 17.4% in rural areas), transport (5.2% versus 4.2%), communication services (5% vs. 4%) for hotels, cafes and restaurants (3.5% vs. 0.3%), entertainment services (1.6% versus 0.4%) and education (0.7% versus 0.5%). At the same time, the rural population spent more on clothing, footwear (11.5% versus 10.6% in urban areas), health (6.6% versus 6%) and household equipment (4.6% vs 3,5%).



Sursa: <http://www.statistica.md>

As an analysis of the household consumption expenditure and consumer ramani in recent years is as follows:

**Table 1. Consumption expenditure of households in the second quarter, 2012-2015**

	2012	2013	2014	2015
<b>Total consumer spending monthly average person</b>	<b>1582,9</b>	<b>1762,0</b>	<b>1807,9</b>	<b>2075,6</b>
<i>including in% for :</i>				
<b>Food</b>	43,7	44,3	44,9	<b>41,9</b>
<b>Alcoholic drinks, tobacco</b>	1,6	1,5	1,4	<b>1,4</b>
<b>Clothing, shoes</b>	11,2	10,6	10,3	<b>11,0</b>
<b>Home care</b>	18,5	19,0	18,3	<b>17,9</b>
<b>Housing facilities</b>	3,3	3,2	3,2	<b>4,0</b>
<b>Medical care and health</b>	4,8	4,7	5,5	<b>6,3</b>
<b>Transport</b>	4,5	4,9	4,4	<b>4,7</b>
<b>Communications</b>	4,5	4,3	4,5	<b>4,5</b>
<b>Recreation</b>	1,4	1,0	0,9	<b>1,1</b>
<b>Education</b>	0,9	0,9	0,9	<b>0,6</b>

<b>Hotels, restaurants, cafes etc.</b>	1,8	1,5	1,6	<b>2,0</b>
<b>Diverse</b>	3,8	4,1	4,1	<b>4,6</b>
<b>Consumer spending money monthly average person</b>	<b>1418,2</b>	<b>1581,6</b>	<b>1634,4</b>	<b>1879,9</b>
<b>Consumption expenditure in kind, monthly averages per person</b>	<b>164,8</b>	<b>180,5</b>	<b>173,5</b>	<b>195,7</b>

Source: <http://www.statistica.md>

Overall, the consumption behavior of the population was structured according to the objective conditions of life of households and relevant socio-economic policies adopted by the Government.

For the most during the past year, even employees in Romania have allocated more than half of the resources consumption for Chapter food, clothing, shoes, maintenance and equipping of the house, the remaining resources are allocated in suitable proportions, non-food products and services.

### Conclusions

If the intensity of the need decreases together with the increase of the consumed quantity, the satisfaction and obtained utility for each unit additionally consumed is smaller than for the previous one.

The rational individual will not continue the consumption beyond the point of repletion thus the marginal utility is normally going to be decreasing and positive. The rational consumer seeks to maximize the utility.

Given that the quantity of goods available for consumption is a given size, any change in the distribution of incomes that increases the satisfaction of an individual's needs reduces this possibility for another consumer.

Performing the maximum satisfaction by the consumption of goods or services purchased with limited resources make up the consumer's budget, defines their equilibrium condition.

The consumer is any economic agent responsible for the consumption act of certain final goods or services.

The report between the income of the collectivity and the amount on which can be discounted that he is going to spend for consumption is inclination for consumption. The marginal inclination to consumption and the average inclination vary according to the income level.

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