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PREFACE

A nation's wellbeing among other factors is quite closely linked to its economic wellbeing. In present-day economics one of the foremost measures of performance of any economy is the GDP growth rate. The GDP in itself comprises of private consumption, government consumption, investment and net exports with private consumption being the dominant component in most economies. While an economy strives to attain its performance benchmarks it's equally important to ensure economic stability. In terms of the health or economic stability of the economy fiscal deficit is regarded as one of the most notable barometers. Fiscal deficit simply stated as the borrowing or dissaving's that an economy incurs to finance its expenditure.

With most of growth for economies coming from private consumption expenditure a pertinent question is what happens if government decides to increase its deficit, what is the implication on private consumption? Relevant and related economic theories on this subject have presented contradictory propositions, some have stated deficit to be a burden for the economy, others have argued that deficit leads to higher consumption and still others have claimed that deficit has no effect on consumption. The present study aims at examining the linkage between fiscal deficit and private consumption behaviour in context of the Indian economy.

This study is divided into six chapters. Chapter I highlights the relevance and significance of consumption in an economy. It also gives an introduction about the research, review of various related national and international literatures, relevance, objectives and limitations of the study. This chapter also states the hypothesis and research methodology to be used for conducting empirical analysis.

Chapter II explains the concept and importance of consumption function, determinants of consumption function and various conceptual issues like marginal propensity to consume, average propensity to consume, short and long run consumption function and their reconciliation. This chapter also throws light on the works of the eight prominent economists on consumption behavior covering from Keynes' Psychological Law of Consumption to David Laibson Pull of Instant Gratification.

Chapter III analyzes the relative share of private final consumption expenditure as a component of Gross Domestic Product and among food and non-food items. Further

the chapter examines the trends of various food and non-food items in both urban and rural areas. It studies the major food items of consumption across rural and the urban areas. It also focuses on the interstate differences in consumption pattern and trend of the monthly per capita expenditure across income groups of food and non-food items in both urban and rural areas.

Chapter IV explains the concept of fiscal deficit and its components, the introduction of the concept of fiscal deficit in India, its causes and its formula and measurement. This chapter also describes the Neo Classical, Keynesian and Ricardian view of fiscal deficit. Further the chapter also analyzes the major trends in the fiscal deficit of Central government in India and its modes of financing.

In Chapter V an attempt has been made to examine the impact of fiscal deficit on private consumption behaviour in India during the period 1980-81 to 2012-13. The study measures both the short run and long run implications of fiscal deficit on private consumption expenditure. This chapter also studies the effect of other variables i.e., government consumption, disposable income, foreign savings, real interest rate, base money and domestic credit to private sector on private consumption expenditure. Further an attempt has been made to identify how significant is the impact of the independent variables on the dependent variable in both the short run and long run and its direction by empirically testing the model. This helps test the hypothesis stated in chapter I and find out if the null hypothesis is rejected or accepted.

Chapter VI summarizes the major findings and conclusion of this research, policy implication of the study and also suggest the scope for the future research.

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