A Study On Income Inequality Affects Consumer Spending Patterns: Higher Income Groups Vs Lower Income Groups

Manoharan Prajana[1], Dr. M.D. Chinnu2
[1] school of excellence in law
[2]Assistant professor, school of excellence in law
[1, 2] The Tamilnadu Dr. Ambedkar Law University, Chennai- 600113

Abstract- *This paper explores the intricate relationship between income inequality and consumer spending patterns, shedding light on the dynamic nature of consumer behaviour in response to fluctuations in personal finance. Income, being a central determinant of an individual's purchasing power, plays a pivotal role in shaping the consumption patterns and preferences of consumers. A widening gap in income distribution leads to distinct consumption behaviors across different income groups, with higher-income individuals tending to spend more on luxury goods and services while lower-income individuals prioritize basic necessities, ultimately shaping market dynamics and influencing overall economic activity due to differing propensities to consume across income levels. This study examines how income inequality significantly patterns, highlighting that a wider income gap leads to distinct consumption behaviors between high and low-income groups. This study examines the complex relationship between consumer buying habits and income inequality, illuminating how consumers' conduct is dynamic in reaction to changes in personal financial circumstances.*

Keywords- Income, Inequality, Consumer, Spending patterns, Lower-income, Higher-income, Economic Growth, Luxury goods, Necessity goods, equitable distribution.

I. INTRODUCTION

Consumer choices are significantly influenced by a multitude of factors, with one of the most potent being changes in income. As individuals experience shifts in their financial circumstances, they adapt their consumption patterns and preferences to align with their new-found economic realities. This phenomenon is not only of interest to economists and marketers but also holds important implications for understanding human behaviour and well-being. This study aims to explore the intricate relationship between income inequality and consumer spending patterns. It seeks to devolve into the psychological and economic mechanisms that drive these changes, examining how individuals alter their spending habits and prioritize goods and services and adjust their overall lifestyle in response to variations in income. The objective is to shed light on the dynamic nature of consumer decision-making and its consequences.

Consumer choices plays a crucial role in shaping economics markets and influencing overall societal patterns. Income serves as the fundamental resources that allows consumer to satisfy their needs, fulfil desires, and make decisions regarding consumption, investment and savings. The relationship between income and consumer choices has long been a subject of interest of economists, sociologist, and policy makers alike. Understanding how changes in income influence consumer behaviour is essential for developing effective economic policies, predicting market trends, and improving overall welfare in society. In subsequent sections, we will devolve into the existing literature, methodologies, and findings on the subject, aiming to shed light on the intricate relationship between income inequality and consumer spending patterns.

Statement of the Problem:

To examine how varying levels of income inequality within a given population significantly influence individual consumer spending decisions particularly regarding the types of goods and services purchased, the allocation of disposable income, and the overall impact on market dynamics and economic growth. The core issue is understanding how differences in income across various population groups affects their consumption habits. The study will examine how these different income levels translate choices about what and how much individuals buy. Recognizing that different income groups might exhibit distinct consumption patterns, including variations in luxury goods, essential items and saving behaviour. Exploring how these variations in consumption patterns may impact market dynamics, economic growth, and overall societal well-being.

Review of Literature:

In 2009, two epidemiologist, Wilkinson and Pickett, the effect of income inequality on happiness critically depends on the perceived mobility in a country. If income mobility is high, as such as in the USA, income inequality tends to be positively associated with reported well-being as individuals tend to consider that they will eventually reach a higher income. The opposite is observed in low mobile countries like European countries because in those countries individuals feel that it is impossible to reach a higher level of income.[1]

In his study, Wilcox (1989) investigated how aggregate consumption responded to pre –announced social security benefits increases. Surprisingly, he found that consumption did not increase when the income boost was announced but rather when it was put into effect. Specifically, he estimated that a 10 percent increases in social security benefits led to a 1 percent rise in retail sales within the same month and 3 percent increase in purchase of durable goods. Despite these limitations, Wilcox's research provides valuable insights into the dynamics of consumer behaviour and the timing of their response to changes in income.[2]

Research gap and Objectives of the Study:

Income inequality significantly impacts consumer spending patterns because individuals from different income groups allocate their resource differently. Higher-income groups tend to save and invest larger portion of their earnings, while lower-income groups primarily spend on necessities such as food, housing, and health-care. In India, income inequality has not been adequately discussed, despite is profound effects on economic growth and market demand. Wealth concentration among a small section of the population limits overall consumer demand, as lower-income groups have less disposable income for discretionary spending.

This study is guided by the following objectives:

- To find out the income inequality has affected our ability to save money.
- To examine how the income inequality affects overall consumer spending pattern in society.
- To understand whether business should adjust their pricing strategies to accommodate different income levels.
- To evaluate the role of income changes in shaping consumer behaviour, such as saving, spending, or investing.
- To investigate whether the demographics factors, such as age, gender, and location, interact with income changes to affect consumer choices.

Methodology:

This research incorporates both doctrinal and non-doctrinal approaches. Data has been gathered from various sources, including newspaper, magazines, books, reports, and online resources. The sample size for this study consists of 60 respondents. The research employs a stratified random sampling technique. Additionally, key statistical tools such as the percentage method and the average method have been utilized. The research duration is three months.

Significance of the study:

Studying the effects of income inequality on consumer spending is crucial because it highlights how differences in wealth distribution shape economic activity. When wealth is concentrated among higher-income groups, demand shift towards luxury goods and premium services, while lower-income consumers may struggle to afford basic necessities, limiting their overall spending power. This imbalance can influence market trends, widen economic disparities, and potentially slow down economic growth by reducing overall consumer demand.

Examining the effects of income inequality on consumer spending is essential as it offers valuable insights into a nation's economic stability. It helps government analyse how various income groups participate in the economy and recognize challenges such as slow growth or social tensions caused by wealth disparities. This understanding enables policymakers to develop strategies that reduce income inequality and encourage a more equitable distribution.

Hypothesis:

This study is founded on the following hypothesis:

H1 Consumers believe income inequality affects their overall spending patterns in society.

H2 Businesses that adjust their pricing strategies to accommodate different income levels will experience increased customer satisfaction and sales.

Limitation of the study:

How income inequality impacts consumer spending patterns limitations include: difficulty accurately measuring consumption data, challenges in isolating the impact of income inequality from other factors, potential for under-reporting of high-end consumption, and the complex influence of social factors like status consumption on spending decisions across different income groups; making it difficult to definitively attribute changes in consumer behaviour solely to income inequality. Official income data may not fully capture all income sources, particularly for high-income earners, leading to underestimation of income inequality. Measuring consumption can be challenging due to under-reporting of certain spending categories, like luxury goods or difficulties in accurately capturing spending on durable goods like housing.

Results and Discussion:

Income inequality refers to how unevenly income is distributes throughout a population. The less equal distribution, the greater income inequality. Income inequality is often accompanied by wealth inequality, which is the uneven distribution of wealth. Populations can be divided up in different ways to show different levels and forms of income inequality, such as income inequality by gender or race. Income inequality, or the imbalance of income earned by a group people, exists in countries throughout the world.

Income inequality significantly impacts the consumer spending patterns by concentrating a large portion of disposable income in the hands of higher-income individuals who tend to save more and spend less on consumer goods compared to lower-income individuals who are more likely to spend nearly all their income on essential need, there by hindering overall economic growth and creating imbalances in the market demand.

Howincome inequality affects consumerspending:

Propensity to consume:

Low-income individuals generally have a higher “propensity to consume” meaning they save a larger portion of their income and spend less on everyday goods, while lower-income individuals often need to spend a larger share of their income basic necessities. Since wealthier individuals save more, a larger concentration of wealth at the top can lead to weaker overall consumer demand. High inequality can slow growth because spending drive demand, and excessive savings at the top may not translate into productive investments.

Status consumption:

In societies with high income inequality, individuals may spend more on visible luxury goods to signal their social status, leading to increased demand for high-end products and services. Status consumption refers to the act of purchasing goods and services primarily to signal wealth, prestige, or social standing rather than for functional necessity. This behaviour influenced by social, cultural, and economic factors, and it plays a significant role in shaping consumer markets. Consumers prioritize the social meaning of product rather than its practical use. Luxury brands, high end-cars and exclusive experiences are common examples.

Market Segmentation:

Income inequality can create distinct market segments where businesses cater to different income levels with differentiated product offerings, catering to both high-end and budget-conscious consumers. Market segmentation is the process of dividing a broad consumer market into smaller, more manageable groups based on shared characteristics. This allows businesses to tailor their products, marketing strategies, and services to meet their specific needs of different product segments.

Impact on aggregate demand:

When a significant portion of income is concentrated among a small group of high-income earners spend less, it can be lead to a decrease in overall consumer demand, potentially impacting economic growth. Their consumption is often directed towards luxury goods and services, which may not drive widespread economic growth. Low and middle income individuals spend a larger share of the earnings on necessities (food, housing, transportation), meaning they have a higher marginal propensity to consume.

Diverging consumption habits:

Income inequality creates significant differences in spending behaviour between high-income and low-income groups. Higher-income individuals tend to allocate a larger share of their spending to luxury goods, entertainment, travel and personal services. In contrast, lower-income households spend a greater portion of their income on basic necessities such as food, housing, health-care, and transportation. This divergence influences market demand, with companies catering to either premium or budget-conscious consumers.

Impact of Income Inequality onconsumer spending patterns: Case studies and legal implications

Income inequality significantly influences consumer spending patterns, affecting both the types and amounts of goods and services purchased across different income groups. While specific legal cases directly addressing this relationship are limited, various studies and economic analyses provide insights into how income disparity shapes consumption behaviour.

Conspicuous consumption and social signaling:

In societies with pronounced income inequality, individuals, particularly from lower-income group, may engage in conspicuous consumption to signal status and bridge perceived social gaps. A study focusing on India found that increased income inequality is associated with higher spending on conspicuous goods, especially among low-income and rural households. This behaviour is attributed to limited alternative means of signaling status, such as educational qualifications or professional titles.

Impact on Aggregate Consumption:

The relationship between income inequality and overall consumer spending is complex. Some studies suggest that while income inequality has risen, consumption inequality has not increased proportionally, possibly due to the development of credit markets that enable lower-income house-holds to maintain consumption levels despite income disparities.

Policy and Legal Implications:

While direct legal cases linking income inequality to consumer spending are scarce, the observed spending behaviors have significant policy implications. For instance, understanding these patterns is crucial for developing effective consumer protection laws, credit regulations, and social welfare policies aimed at mitigating the adverse effects of income inequality on consumption.

In summary, income inequality profoundly affects consumer spending patterns, leading to behaviour such as conspicuous consumption and increased borrowing among lower-income groups. These trends have important implications for economic policy and retail market strategy.

Legal Implications on Income inequality affectsthe consumer spending patterns:

Taxation Policies:Income Tax Act 1961,

Section 80C- Provides tax deductions that influence disposable income and spending. Tax deductions and exemptions can encourage consumer spending in certain sectors (e.g. housing, health-care).

Section 10(5) - Exempts leave travel allowance, boosting the travel industry and related spending.

Section 87A- Provides tax rebates for individuals with lower incomes, enhancing their purchasing power.[3]

Goods and Services Tax (GST) Act, 2017

Section 9 – Levy of GST in goods and services, affecting affordability and consumer demand.

Section 11 – Allows exemptions on essential goods, ensuring lower-income groups can afford necessities.[4]

Social Welfare and Subsidies:
Constitutionof India

Article 39(a) – Ensures equal pay for equal work, reducing wage disparities.

Article 41 – Guarantees social security in cases of unemployment and disability, stabilizing consumer spending.[5]

Mahatma Gandhi National Rural EmploymentGuarantee Act (MGNREG), 2005-

Section 3 – Provides a minimum of 100 days of wage employment, ensuring rural spending capacity.

Section 6 – Establishes wage rates, preventing extreme income disparity.

Consumer Protection Act, 2019

Section 2(9) – Defines consumer rights, including protection from unfair trade practices.

Section 47 – Regulates product pricing and transparency, ensuring fair market conditions.[6]

Case Laws:

Laxmi Engineering Works v. P.S.G. Industrial Institute (1995)

Laxmi Engineering Works, a business entity, purchased machinery from PSG Industrial Institute. The machinery was found to be defective. Laxmi Engineering Works filed a complaint under the Consumer Protection Act, 1986 seeking relief. PSG Industrial Institute argued that Laxmi Engineering Works was not “consumer” under the Act because it had purchased the machinery for commercial purposes. The Court distinguished between consumers and businesses purchasing goods for commercial purposes. It held that if a person buys goods for resale or commercial use, they do not qualify as a “consumer” under the Act. Since Laxmi Engineering Works purchased the machinery for business use (not self-employment), it was not considered a consumer under the Act. However, individuals purchasing goods for self-employment or livelihood are protected under consumer laws.[7]

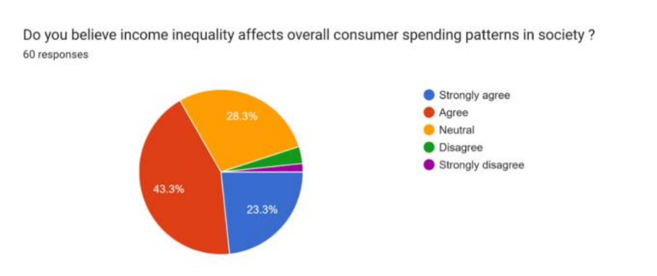
Hindustan Coca-Cola BeveragesPrivate Ltd. v. Purushottam Gaur andOthers (2014)

The National Consumer Disputes Redressal Commission (NCDRC) addressed a compliant involving a contaminated beverage. The Complaint, Mr. Purushottam Gaur, purchased a bottle of Fanta on May 3, 2006, and upon returning home, discovered insects inside the sealed bottle. He sought compensation of ₹ 4,01,000 alleging deficiency in service by the manufacturer. The manufacturer contended that there was no evidence proving the bottle was produced by them, suggesting it might be spurious. They emphasized their bottling plants adhere to high standards of hygiene, making contamination unlikely. Initially, the District Forum dismissed the complaint. However, upon appeal, the State Commission awarded the complainant ₹10,000 in compensation and imposed ₹3,000 in the costs of manufacturer. This case underscores the responsibility of manufacturers to ensure product safety. Buys goods for resale or commercial use, they do not qualify as a “consumer” under the Act. Since Laxmi Engineering Works purchased the machinery for business use (not self-employment), it was not considered a consumer under the Act. However, individuals purchasing goods for self-employment or livelihood are protected under consumer laws.[8]

Table No. 1: Income inequality affects overall consumer spending patterns in society.

Indicators	Male	Female	Prefer not to say	Total
Strongly Agree	8 (13.4)	6 (10.00)	0 (0.00)	14 (23.4)
Agree	4 (6.6)	22 (36.7)	0 (0.00)	26 (43.4)
Neutral	7 (11.6)	10 (16.7)	0 (0.00)	17 (28.4)
Disagree	1 (1.7)	0 (0.00)	1 (1.6)	2 (3.4)
Strongly Disagree	1 (1.7)	0 (0.00)	0 (0.00)	1 (1.6)
Total	21 (35.00)	38 (63.4)	1 (1.6)	60 (100.00)

Source: Primary Data

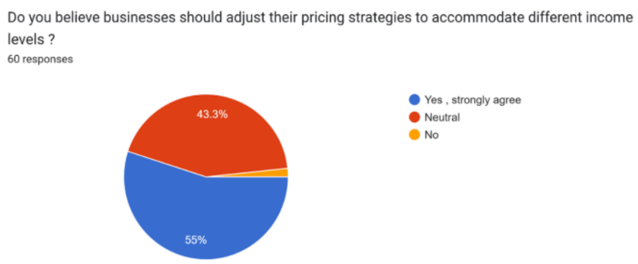


The pie chart illustrates responses to the question of whether income inequality affects overall consumer spending patterns in society, based on 60 responses. The majority of respondents either agreed 43.3 percentage or strongly agreed 23.3 percentage, suggesting that most believe income inequality influences spending behaviours. A significant portion 28.3 percentage remained neutral, indicating uncertainty or a balanced perspective. Only a small fraction disagreed (green) or strongly disagreed (purple), showing that opposition to this idea is minimal. This suggests a general consensus that income inequality has a notable impact on consumer spending trends.

Table No. 2: Business should adjust their pricing strategies to accommodate different income levels.

Indicators	Male	Female	Prefer not to say	Total
Yes, Strongly Agree	14 (23.4)	19 (31.7)	0 (0.00)	33 (55.00)
Neutral	6 (10.00)	19 (31.7)	1 (1.6)	26 (43.4)
No	0 (0.00)	1 (1.6)	0 (0.00)	1 (1.6)
Total	20 (33.4)	39 (65.00)	1 (1.6)	60 (100.00)

Source: Primary Data



The survey results indicate that a majority 55 percentage of respondents strongly agree that businesses should adjust their pricing strategies to accommodate different income levels. However, a significant portion 43.3 percentage remains neutral on the topic, suggesting that while there is notable support, many individuals may have reservations or are undecided. A very small percentage outright disagrees with the idea. This suggests that while tiered or adaptive pricing could be widely accepted, further discussion or clarification may be needed to address concerns or uncertainties.

Testing of Hypothesis:

Hypothesis 1- “Consumers believe income inequality affects their overall spending patterns in society”.

"A hypothesis test was conducted on the statement H1 that consumers believe income inequality affects their overall spending patterns in society. At the beginning of the research, it was assumed that income inequality influences consumer spending behaviour. After conducting the survey, the results, as shown in Table 1, indicated that consumers strongly believe income inequality impacts their spending patterns. After the survey, the findings revealed that 43.3 percentage of respondents agreed with this adjustment. The level of agreement with this notion was significantly higher than the null hypothesis (H0). Therefore, the hypothesis was proven to be valid."

Hypothesis 2- “Businesses that adjust their pricing strategies to accommodate different income levels will experience increased customer satisfaction and sales”.

"A hypothesis test on statement H_2 suggests that businesses should adjust their pricing strategies to accommodate different income levels. At the beginning of the research, it was proposed that price adjustments should be made to cater to various income groups. The survey results, particularly Table 2, indicate that businesses indeed modify their pricing strategies to suit different income levels. After the survey, the findings revealed that more than 50 percentage of respondents strongly agreed with this adjustment. The level of agreement with this notion was significantly higher than the null hypothesis (H0). Therefore, the hypothesis was proved valid."

II. CONCLUSION

In this paper we wanted focus on the Income Inequality affects the consumer spending patterns in society. The effects on income changes on consumer are complex and multifaceted. In conclusion, changes in income can significantly influence what consumers buy and how they make choices. The relationship between income changes and consumer choices is a vital aspect of economic analysis. This study was highlighted how changes in income levels can greatly influence consumer behaviour, affects spending habits, preferences, and overall purchasing patterns. As we observed, an increase in income tends to elevate consumer confidence and willingness to spend, resulting in a shift towards higher-quality products, luxury goods, and experiential purchases. Businesses can use these insights to adjust their marketing strategies and product offerings to better meet the evolving needs of consumers. Ongoing studies in this field will continue to offer important insights, particularly as consumer preferences and economic conditions constantly change.

III. FINDINGS

Income inequality influences how people spend their money. Those with higher incomes can afford to spend on various aspects of life, while those with lower incomes often struggle to do the same. Because of this gap, saving money becomes a necessity for lower-income individuals. In many cases, people delay or even cancel big purchases, such as homes, food, and appliances, due to financial limitations.Businesses must adjust their pricing strategies to cater to different income levels. Understanding these variations is important because consumer preferences and economic conditions are always changing.

IV. SUGGESTIONS

1. Higher-income individuals allocate more of their spending to luxury goods and experiences, while lower-income individuals prioritize basic needs,
2. Unequal spending distribution may slow overall economic growth by limiting broad-based consumer demand.
3. In societies with high income disparity, people may buy expensive goods to signal wealth rather than for practical use
4. Reduced purchasing power among lower-income groups can limit overall consumption, slowing economic growth.

5. Lower-income groups may rely on credit to maintain consumption, leading to higher debt levels and financial security.

REFERENCES

[1] Income Tax Act, 1962, Act of 43 of 1961, 1 April, 1962.
[2] Central Goods and Services Act, 2017, Act 12 of 2017, 12 April 2017.
[3] The Constitution of India, Constitution Amendment Act, 2023.
[4] Mahatma Gandhi National Rural Employment Guarantee Act, 2005 as on September 2005.
[5] Miss. Seema Sanjay and Mr. Gandhi Rushikesh Prashant, The Effects of Income Changes on Consumer Choices, International journal of advanced research in science, communication and technology (IJARSCT), Volume 2, Issue 3, December 2022.
[6] Aman Gupta et.al, The Effect of Income Changes on Consumer Choices, International conference on current research trends in engineering, science & management, 29 March 2021.
[7] SomyaSettia, Analysis the impact of income fluctuations on consumer demand patterns, International journal of scientific engineering and research (IJSER), Volume 11, Issue 11, November 2023.
[8] Hamid Lahouij, The effects of income inequality on economic growth from evidence from MENA countries, ECN 5433, 2017.
[9] Beatrice d'Hombres, Literature review on income inequality and the effects on social outcomes, JRC Publications Repository, 2009
[10] www.ijser.in
[11] https://indiankanoon.org
[12] https://blog.ipleaders.in
[13] https://www.casemine.com
[14] https://digiscr.sci.gov.in
[15] https://www.livelaw.in
[16] https://link.springer.com.in
[17] https://www.ijsr.net/getabstract.php%3Fpaperid%3DSR25302221212
[18] https://www.ijarsct.co.in/paper13955.pdf
[19] https://www.investopedia.com/terms/i/income-inequality.asp