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ANALYSIS OF ESTIMATED EQUIVALENCE SCALES BASED ON DIFFERENT APPROACHES IN THE CZECH REPUBLIC

Abstract:

The economic and financial situation of persons depends on the size and structure of their household. The level of the economies of scale of living together is reflected in an equivalence scale. This scale of consumption units assigns to each individual household member the specific weight according to defined rules.

In this time the scales for all European country are applied. OECD uses the OECD scale while Eurostat uses the OECD-modified equivalence scale. It allows the international comparison of income and consumption level of households across all states. However, this commonly used scales may not be suitable for all countries, because they do not reflect any country specific economic conditions. Economies of scales are highly dependent on the structure of household consumption and expenditures which varies significantly across countries. Therefore, the need of national equivalence scales appropriate for each country is observed.

The aim of this contribution is to compare the international scales with the equivalence scales estimated within our research. These scales are suitable for the Czech Republic as they take into account the economies of scale realized by Czech households. Two alternative approaches have been applied: an expenditure equation and utility function. The first one uses household budget survey data (HBS), the second approach is based on survey on income and living conditions (SILC). It has been proved that estimated equivalence scales differ to international ones. Subsequently, the impact in income and poverty indicators has been assessed. Overall effect on poverty indicators is not big, however a significant impact on specific group of people is observed. Mainly influenced groups are children and pensioners.

The national scales affect the countries differently, especially in comparison of specific groups of by their social status. The second approach allows also international comparison as SILC is harmonized in Europe. The different impact of equivalence scales across European states is provided.

Keywords:

consumption units, equivalence scale, household expenditures, utility function, economies of scale

JEL Classification: D12, D31