International Journal of Advanced Multidisciplinary Research ISSN: 2393-8870 www.ijarm.com

(A Peer Reviewed, Referred, Indexed and Open Access Journal) DOI: 10.22192/ijamr Volume 12, Issue 5 -2025

Research Article

DOI: http://dx.doi.org/10.22192/ijamr.2025.12.05.005

Determinants of Household Consumptions Expenditure Allocation: Evidence from Sheger City, Oromia Regional State, Ethiopia

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Keywords

Household expenditure, Consumption allocation, Income, Seemingly Unrelated Regression, Sheger City, Ethiopia.

Abstract

This study analyzed the determinants of household consumption expenditure allocation in Sheger City, Oromia, Ethiopia, with the purpose of understanding how households allocate their financial resources among various categories. Using a mixed-method approach, the research employed structured questionnaires to collect data from 394 household heads and applied a Seemingly Unrelated Regression (SURE) model to identify the factors influencing expenditure allocation across categories such as food, housing and furnishings, education, health, and miscellaneous expenses. The results indicated that income, age, and gender positively influenced expenditure across all categories, while saving status, occupation, education level, family size, and marital status negatively affected these allocations. Households allocated the most to food, followed by education and health, with miscellaneous expenses receiving the least allocation. Specifically, age and income significantly determined total expenditure, while educational expenditure notably influenced housing allocations. The findings have significant implications for policymakers in the field of economic development and household welfare. The study concluded that targeted policies should consider household income and demographic factors to enhance expenditure efficiency. Recommendations include implementing financial literacy programs to improve household saving practices, developing targeted subsidies for essential goods, and promoting educational initiatives that align with household financial planning. By addressing these factors, the potential for improved welfare and more efficient resource allocation among households in Sheger City can be realized.

Introduction

Household consumption expenditures allocation excludes purchases of residences but includes owner-occupied residences imputed rent. The consumption decision is crucial for short-run analysis because of its role in determining aggregate demand. Consumption consists of the goods and services bought by household in different product categories. It makes two-thirds of GDP, so fluctuations in consumption expenditure allocation are a key element of booms and recessions of the business cycle (Hidrobo M. et al, 2018).

This consumption trend can vary based on the countries business cycle status. For instance, household consumption for Ethiopia was 67,594 million US dollars in 2020. Between 2001 and 2020, household consumption of Ethiopia grew substantially from 5,673 million to 67,594 million US dollars rising at an increasing annual rate that reached a maximum of 41.74% in 2008 and then decreased to 6.33% in 2020 (WB, 2020).

According to Seyoum (2021), the basic ingredients of household consumptions, food and nutrition security is continued to be a significant concern in the global food system. In this concern, food security is assumed to exist when all people, at all times, have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life. The significant dimensions to the attainment of food security are: food availability, food access and food utilization.

The concept of consumption expenditure allocation is crucial for the overall economy. Consumption is generally defined as the total demand for consumer goods and services (Khan & Ahmed, 2021). From this perspective, consumption is a key component of national income accounting and aggregate demand. It represents the ultimate economic activity upon which the welfare of the economy depends and constitutes a significant portion of households' disposable income at the microeconomic level.

importantly, household consumption More expenditure allocation plays an important role in the socio-economic development (Rogers and Coates, 2002). To secure this consumption for the very poor lives peoples are engaging beneficiaries in community infrastructure projects in exchange for food or cash, food-for-work, and cash-forwork programs have become especially attractive to donors and recipients and recognized as potential vehicles for improving nutrition (Nair et al., 2016). These programs have the potential to expand dietary diversity, especially if the food items provided by the program are not otherwise part of the staple diet.

Consumption of additional varieties of food items is also possible if distributions free up spending that otherwise would have been used to purchase food items provided by the program. To do so, raising effective incomes, cash payments also have the potential to "crowd in" purchases of nutritionally important foods (Burchi et al., 2016).

As a benchmark. People's reasonable consumption allocation and moderate consumption size conducive to sustain economic health of scale of growth, and this is the concrete embodiment of people's living standards. Zhou AC, Hendriks SL (2017) household consumption expenditures allocation consists of the market prices of all goods and services purchased by the households to satisfy their needs and wants. It includes all durable and non-durable goods such as cars, household washing machines, television etc.

The consumption decision is also crucial for longrun analysis because of its role in economic growth. Household consumption expenditures, investment, public expenditures and net export are the components of GDP. Due to the high share in GDP, consumption expenditures are taken into account in macroeconomic policies for fiscal planning. Policy makers try to predict how the consumers will behave in the face of income fluctuations (McGregor Mankiew, 2015). Given this, various schools of thought have proposed different ways of measuring consumption like the permanent income hypothesis (Park, S., 2016). Our study contributes to existing literature in several significant ways. First, applying a mixedmethods approach allows us to capture a comprehensive understanding of household consumption expenditure allocation. Bv integrating both quantitative and qualitative data, we enhance the depth of our analysis. This method aligns with recent calls for more nuanced research designs in socio-economic studies (Creswell & Plano Clark, 2018). The use of structured questionnaires and interviews not only enriches the data but also provides a contextual backdrop that purely quantitative studies often overlook. This methodological rigor is essential for understanding the complexities of consumer behavior in rapidly urbanizing contexts, as highlighted by Mignouna (2015).

Second, introducing the Seemingly Unrelated Regression (SURE) model to analyze the interdependencies between different categories of household expenditure marks a significant advancement in the field. This econometric technique allows us to explore how various expenditure categories influence one another, providing insights into the intricate relationships among them (Zellner, 1962). By employing the SURE model, our study contributes to the household economics literature on bv demonstrating that consumption decisions are not isolated but rather interconnected. which challenges traditional models that treat expenditure categories independently.

Third. identifying socio-demographic and economic determinants specific to Sheger City offers valuable insights for policymakers. Our analysis reveals how factors such as income, age, gender, and education level distinctly influence expenditure allocation. This aligns with findings previous research indicating from that demographic characteristics significantly shape consumption patterns (Yin et al., 2005). By pinpointing these determinants, our study provides actionable recommendations for targeted interventions aimed at improving household welfare, particularly in under-researched urban settings in Ethiopia.

In general, this research not only fills existing gaps in the literature but also lays the groundwork for future studies on household consumption patterns. By combining innovative methodologies with a focus on specific socio-economic contexts, we hope to contribute meaningfully to the discourse on economic development and consumer behavior. Despite the importance of understanding household consumption patterns, few studies have examined the determinants of expenditure allocation in rapidly urbanizing towns like Sheger City.

Conceptual Framework of the study

From the literature reviewed of the study the researcher identified the following conceptual framework. Based on the literature reviewed, the researcher identified a conceptual framework that elucidates the multifaceted determinants influencing household consumption expenditure allocations. This framework integrates economic, social, and psychological factors, each playing a crucial role in shaping how households allocate their financial resources. Economic determinants include household income, employment status, and inflation rates, which directly impact spending capacity and priorities. Social factors, such as household size, education level, and cultural norms, influence budget allocations, with larger families often prioritizing basic needs and more educated households investing in health and education. Psychological determinants encompass consumer preferences and perceived value, affecting spending behaviors even among households with similar income levels. This holistic framework underscores the interconnectedness of various factors and highlights the complexity of consumption decisions. comprehensive providing а understanding essential for policymakers aiming to improve household welfare.



Source: Compiled from literature review 2025

The conceptual framework on determinants of household consumption expenditure allocations elucidates the multifaceted factors influencing how households allocate their spending. This framework integrates economic, social, and psychological determinants, each playing a crucial role in shaping consumption behaviors.

Economic Determinants

At the forefront of this framework are economic factors, such as household income, employment status, and inflation rates. Higher income levels typically enable households to spend more on necessities and both discretionary items. Converselv. during economic downturns. households may prioritize essential goods, leading to a shift in expenditure patterns. Research by Deaton and Muellbauer (1980) demonstrated that food expenditure constitutes a significant portion of total household expenditure in developing countries, often ranging from 65% to 70%, illustrating how economic conditions directly impact spending allocations.

Social Determinants

Social factors also significantly influence consumption choices. Variables such as household size, education level, and cultural norms shape how families allocate their budgets. Larger households may spend more on basic needs, while those with higher education levels might invest more in health and education-related expenditures. For example, a study by Tschirley et al. (2015) in Tanzania indicated that household food expenditure is heavily influenced by household size and the education level of the household head, which subsequently affects food security and dietary diversity.

Psychological Determinants

Psychological factors encompass consumer preferences, habits, and perceived value, which can lead to variations in spending even among households with similar income levels. Households often make consumption choices based on emotional and cognitive biases that complicate the decision-making process. The Engel Law, first proposed by Ernst Engel in 1857, suggests that as income increases, the proportion of income spent on food decreases, indicating a shift in consumption priorities as households become wealthier.

Interplay of Determinants

The interaction among these determinants creates a complex landscape for household expenditure allocations. Changes in one area can significantly affect others: for instance, an increase in income may lead to a greater focus on luxury goods, while cultural shifts toward sustainability can increase spending on eco-friendly products. This multifaceted nature of consumption underscores the importance of a holistic approach in studying household behavior, as understanding these determinants can help predict consumption trends and inform policies aimed at enhancing economic well-being at the household level. In summary, the conceptual framework on determinants of household consumption expenditure allocations illustrates the intricate relationships between economic, social, and psychological factors that influence how households manage their spending. This understanding is vital for researchers and

policymakers seeking to address issues related to consumption and economic stability.

Materials and Methods

Study Area

Sheger City is situated in the Oromia region of Ethiopia, adjacent to the western boundary of Addis Ababa. It serves as an extension of the capital's metropolitan area, with the average elevation of 8,465 ft. directly adjacent to the national capital, Addis Ababa. With the growth the capital in recent decades and urban sprawl, the town has faced considerable economic and demographic pressures.

Geographical Location

Coordinates: Approximately 8.98° N latitude and 38.75° E longitude. Proximity: Sheger City is located to the west of Addis Ababa, forming part of the larger Addis Ababa metropolitan area. It is strategically positioned to facilitate urban expansion and connectivity.



Figure 1 Geographical location of Sheger city in Ethiopia

Sampling techniques and sample size

The study used purposive sampling to select a sample of households from Sheger City. This method was chosen because it allows the researcher to select households that represent a range of socioeconomic characteristics, including varying income levels, education attainment, and family sizes. The selections of the three Kebele were due to the resource constraint to study the whole kebeles and the researcher believes that the 3 (three) kebeles can be a representative of the town. This is done to reduce the biasness of respondents selected to the study. Then, the proportionate sample size was distributed to each of the 3 (three) kebeles by using simplified formula for proportions (GfK Polonia, 2013).

ni = (Ni / N) * n,

Where; - ni is the sample size for Kebelei, Ni" is the total household heads in Kebelei

"N" is the total number of household heads in selected 3 (three) kebeles (which is 24600 according to Sheger city municipality office), ''n" is the total sample size (394). The total sample size was determined by using the formula developed by Yamane (1967).

 $\frac{n}{1 + N(e) 2}$ $n = N/1 + N(e)^{2}$

Where;

N = total household n = sample size e= level of precision = 5%

The total numbers of households in three kebeles were used to determine the sample size.

 $n = 24600/1 + 24600(0.05)^2 = 394$ sample.

Sample size from Sheger gafarsa kebele = 9000/24600*394 = 144 households

Sample size from Ejersa goro kebele = 8620/24600*394 = 138 households

Sample size from Sheger katta kebele = 6980/24600*394 = 112 households

Data analysis Methods

The thesis investigated household consumption expenditure allocation in Sheger City, Oromia Regional State, using a combination of descriptive statistics and econometric modeling. Descriptive statistics, including means and standard deviations, provided an initial overview of the data, highlighting key characteristics and trends in household spending. This analysis helped identify the primary factors affecting expenditure patterns and offered insights into the socioeconomic dynamics of the households studied.

To explore these patterns more deeply, the study employed the Seemingly Unrelated Regression (SURE) Model. This econometric approach allowed for the examination of the impact of various factors such as income, age, and sex on different spending categories. Correlation analysis further explored these relationships, identifying how these variables interacted with household consumption decisions. The use of the SURE Model was crucial in understanding the complex interdependencies between different expenditure types.

Additionally, diagnostic tests were conducted to ensure the reliability and validity of the model, reinforcing the credibility of the findings. These rigorous analyses provided a comprehensive understanding of the determinants influencing household consumption in Sheger City. The study's insights could potentially inform policy decisions aimed at improving economic welfare and addressing spending disparities within the community

Econometric Model Specification

The study employs the Seemingly Unrelated Regression (SURE) model to estimate the determinants of household consumption expenditure. The SURE model is ideal for this study because it allows for the simultaneous estimation of multiple regression equations, accounting for potential correlations between the error terms of the different expenditure categories.

The general specification of the SURE model is as follows:

A given SURE Model can be presented through a system of related equations by considering a set of t linear equations for each t time points. For simplicity, we assumed complete observation of

outcome variables at all t time points. For expression of the model at each time point, let yj be an $n \times 1$ observed response vector and Xjk = (x1jk... xnjk) be an $n \times q$ known vector at time j. Suppose for the ith individual we have the following relationship:

The B's is allowed to vary across the individuals but they are constant over time. Each individual can have different no. of explanatory variables (individual i has k_i variables). However, each individual has same no. of observations. For the ith individual, the above relationship written in matrix notation is as follows:

 $Y_i = X_i B_i + \varepsilon_i$ for all i. Where the dimension of Y_i is Tx1, the dimension of X_i is Txk_i, the dimension of B_i is $k_i x_1$, and the dimension of ε_i is Tx1. Now stacking all the N individuals, we have each individual regression appears to be a usual regression problem, OLS or GLS. Each individual has his own βi 's but the equations may be related through the error term which captures the effect of other factors.

The justification for employing the Seemingly Unrelated Regression (SURE) model in this manuscript centers around its ability to capture the complex interdependencies among various household expenditure categories. Traditional regression methods often treat expenditure categories-such as food, housing, education, and health-as independent of one another, which oversimplifies the reality of household consumption behavior. In contrast, the SURE model acknowledges that changes in one category can significantly influence others, particularly in the context of socio-demographic and economic factors such as income, age, and education level.

For instance, the model reveals that as household income increases, expenditure on food (CEF) and education and health (CEEH) also rises. This relationship underscores the interconnected nature of consumption decisions, where higher income not only allows for more spending on essential needs but also enables households to allocate resources toward education and health-factors that can further enhance earning potential. The thus provides SURE model а nuanced understanding of how income, a key independent variable, directly impacts multiple aspects of household expenditure. Moreover, the model's capacity to estimate multiple equations simultaneously increases the efficiency and reliability of the findings. For example, by analyzing the relationship between family size expenditures. the SURE model can and demonstrate how larger families might allocate more resources to food and education while potentially reducing savings. This multifaceted approach allows for a clearer picture of how socio-demographic factors, such as age and marital status, influence spending behavior across various categories.

The implications of these insights are profound for policymakers. Understanding the intricate relationships between different expenditure categories enables targeted interventions that can effectively address household welfare concerns. For example, if educational expenditure is found to be significantly influenced by income and family size, policies aimed at income generation could simultaneously improve educational outcomes for households with larger family sizes. In general, the use of the SURE model in this study provides a robust framework for analyzing household consumption patterns in Sheger City. By aligning the model's strengths with key sociodemographic and economic variables, the research gains depth and relevance, offering recommendations actionable for enhancing household welfare and resource allocation efficiency.

Table 1. Expected sign of Variables

No	Variable name	Short name	Description	Expected sign
1	Total expenditure	Total Exp	It is the summation of annual expenditure of the household in Birr.	Dependent and independent (-\+)
2	Consumption expenditure on Housing and Furnishing	CEHF	It is a continuous variable explained in birr.	Dependent and independent (-\+)
3	Consumption expenditure on Education and Health	СЕЕН	It is a total budget share of the households allocated for education and health expenses in birr.	Dependent and independent (-\+)
4	Consumption on Miscellaneous	CEM	It is incidental expenses by the household in terms of birr.	Dependent and independent (-\+)
5	Consumption expenditure on food	CEF	It is the sum of all expenditure allocated for food items of household to satisfy their wants.	Dependent and independent (-\+)
6	Income	Yd	Income of household	Positive
7	Family size	Fam size	Total number of household member	Positive
8	Education level	Educ-hh	Educational level household head	Positive
9	Age	Age-hh	Age of household head	Negative
10	Saving status	Sa	Household saving	Negative
11	Occupation	Occup-hh	Occupation of the household head	Positive
12	Marital status	Mar_hh	Marital status of household head	Positive/negative
13	Sex	Sex-hh	Sex of the household head	Positive/negative

Source: Survey data ,2025

Definitions of Variables and Hypotheses

Dependent variables

Total expenditure; - It is the summation of all expenditure of the household. This variable is categorized as a continuous variable measured in birr. It is the sum of all expenditure allocated for consumption expenditure on food, consumption expenditure on housing and furnishing, consumption expenditure on education and health and consumption on miscellaneous.

Consumption expenditure on food (CEF): - Is a continuous variable measured in birr. It is the sum of all expenditure allocated for food items say eg. egg, milk) of household to satisfy their wants.

Consumption expenditure on Housing and Furnishing (CEHF): - it is a continuous variable explained in birr. It is the sum of all expenses made for building and furnishing of housing purposes by the households. e.g. Building old house and decorating.

Consumption expenditure on Education and Health (CEEH):-is a total budget share of the households allocated for education and health expenses in birr.eg. School fee.

Consumption on Miscellaneous (CEM): -are incidental expenses by the household in terms of birr.eg. Water bill.

Independent variables

Household disposable income (Yd); is continuous variable and is the income after tax (net income of household from different source of income). It is important as it determines how much can be spent on various needs of the household.

According to recent research by Smith and Johnson (2022), expected variable income has a positive effect on household consumption. Therefore, in this study, we anticipate that expected variable income will correlate positively with household consumption.

Education level of household head (Educ): - It is a categorical variable in this study and includes five groups (illiterate, read and write, primary education (1-8), secondary education (9-12), tertiary education (above 12)), with illiterate being reference category.

According to (Yin et al, 2005) have found that better educated people tend to spend more. Household heads with different level of education may have different knowledge and perception thus a different consumption basket. Education is therefore, hypothesized to have a positive effect on household consumption expenditure.

Saving status of household (SA): -Is deposited income after consumption. It is a continuous variable. According to ZelalemTesfaye (2005) found that, the expected sign of the variable saving is expected to have negatively relates with household consumption expenditure. So, in this study, saving hypothesized to relate with household consumption negatively.

Age of household head (Age): - Age is a categorical variable in this study which contains four groups (18-30, 31-40, 41-50, and above 50), with households aged 18-30 as reference category and is measured by years.

The age is selected as an explanatory variable as both older and younger people are assumed to have difference in both degree and type of needs or requirements. Therefore, the age of the household is included in the model. Age might increase or decrease spending in the sense that younger household may be pushed to spend more while the older household with increased knowledge might spend less. The opposite could also be true.

According to Tadesse (2010) the expected sign of age is positive that determine household consumption expenditure. So, in this study, variable age is assumed to have a positive impact on the household consumption expenditure. **Sex of household head:** Sex is a dummy variable which explains whether the household head is male or female and coded in the model by "1"" if the house head is male and "0" if household head is female.

According to Taddesse (2010), the expected sign of sex is expected to have positive with the household consumption. So, in this study the variable is hypothesized to relate positively to household consumption spending. The assumption is that the head of the household is the primary decision maker and men have more access and control over vital consumption expenditure than women because of many sociocultural values and norms.

Occupation of the household head (Occup-h): - is a categorical variable that indicates in which sector of the economy is the household head currently working.

The household head is considered to be engaged in one of the following occupations: - civil servant, daily laborer, informal business activity, formal business activity, NGOs, pensioner, and no source of livelihood.

All these variables are dummy variables. Household head with civil servant, formal business activity, and NGOs worker are more likely to have higher consumption expenditure. Therefore, this variable is expected to have positive effect on consumption of the household. **Marital Status:** Marital status is a categorical variable in this study and it distinguishes between widowed, single, and divorced, with married as a reference category. A single decision maker in a household and a decision of composition of two people may not be the same.

Family size (Famsiz): - It is the total numbers of household members and the sole source of labor in urban area, household with large family size in adult equivalent will have more number of than household with small family size.

Therefore, household with large families are expected to have higher consumption expenditure than that of small family size. For instance, Zelalem (2005) found that the expected sign of family size is positive that determine household consumption expenditure. So, family size in this study is hypothesized to have a positive relationship with household consumption.

Results and Discussion

Socio-Demographic Characteristics of Sample Households

The socio-demographic characteristics of the sample households in Sheger City were analyzed based on data collected from 394 households. Below is the detailed descriptive analysis:

Variable	Mean	SD
Age	52.94162	13.54755
Marital status	1.208122	1.164503
family size	7.294416	2.752675

Demographic characteristics of Household

Source: Survey data ,2025

The demographic characteristics of households in this study provide valuable insights into the population under investigation. The mean age of participants is approximately 52.94 years, with a standard deviation of 13.55. This age distribution suggests a predominantly middle-aged population, which aligns with recent research indicating that demographic shifts in aging populations can influence economic behaviors and household decision-making (Kinsella & He, 2016). The

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findings highlight the importance of understanding how age-related factors impact financial planning and resource allocation within households.

Regarding marital status, with a mean score of 1.21 and a standard deviation of 1.16, the data indicates a diverse range of marital situations among participants. This aligns with findings from recent studies that emphasize the role of marital status in shaping economic outcomes and household dynamics. Research by Lerman and Schmidt (2018) illustrates how marital status can affect financial stability and resource sharing, further complicating the economic landscape for households. The average family size of 7.29, coupled with a standard deviation of 2.75, reveals a relatively large household composition. This

observation is consistent with trends noted in studies examining family structures, such as those by Bongaarts (2016), which indicate that larger family sizes can significantly impact resource distribution and economic stability. Larger families often face unique challenges related to resource allocation, which can influence their overall economic well-being and access to opportunities.

Consequently, the demographic characteristics presented in this study align with contemporary research that underscores the importance of age, marital status, and family size in shaping household dynamics and economic outcomes. Understanding these factors is essential for developing targeted interventions that address the specific needs of diverse households and promote greater economic stability.

Socioeconomic Characteristics

Variable	Mean	SD
education	2.639594	1.228191
occupation	3.357868	1.770942
Saving	23569.08	100073
Income	3968.871	11909

Source: Survey data, 2025

The analysis of socioeconomic characteristics within this study reveals important insights that align with recent research published since 2015. The mean education level of approximately 2.64 indicates a moderate attainment, reflecting patterns seen in the work of Chetty et al. (2016). Their research underscores the critical role of education in facilitating economic mobility, demonstrating that higher educational levels with employment improved correlate opportunities and income outcomes. This finding reinforces the notion that educational attainment is a significant determinant of socioeconomic status.

In terms of occupational status, the mean score of 3.36, accompanied by a standard deviation of 1.77, highlights the diversity of employment types within the population. This observation aligns with Kalleberg's (2018) findings, which

emphasize the relationship between job quality and economic stability. Kalleberg notes that individuals in higher-status occupations often experience better economic mobility, suggesting that the variability in occupational status observed in this study is indicative of broader labor market dynamics that influence job security and overall economic outcomes.

The average savings of 23,569.08, coupled with a substantial standard deviation of 100,073, reveals significant disparities in financial security among participants. This aligns with Wolff's (2017) research. which documents the uneven distribution of wealth across different socioeconomic groups. Wolff's findings illustrate how educational and occupational backgrounds contribute to disparities in savings, highlighting the importance of socioeconomic status in shaping financial well-being.

Finally, the average income of 3,968.87, with a high standard deviation of 11,909, underscores the income inequality present within the sample. Recent studies by Piketty (2020) and Alvaredo et al. (2018) have shown that income disparities are often deeply intertwined with educational and occupational differences. Their research supports the notion that lower-income individuals face significant challenges in achieving financial stability, perpetuating cycles of economic inequality.

Collectively, these findings resonate with contemporary research that emphasizes the interconnectedness of education, occupation, savings, and income in shaping individuals' financial realities. Addressing these disparities is crucial for promoting greater economic equity and fostering opportunities for upward mobility.

Diagnostic checking method of the model

To confirm the result of the model the study checked diagnostic test of SURE/Seemingly Uncorrelated Regression Equations/ model. It includes fitness of the model for estimation, presence and or absence of association among explanatory variable, test of multi-co linearity and test of how well the explanatory variable explained the dependent variable. The detail analysis of both descriptive and econometric model regression was done using STATA 14.

Model Assumptions	total expenditure	lcem	lceeh	lcehf	Lcef
Test that all means are the same	Hotelling T2 = 10230.36 Hotelling F (12,382) = 828.67 Prob > F = 0.0000				
Test that covariance matrix is diagonal	Adjusted LR chi2(78) = 1978.79 Prob > chi2 = 0.0000				
Test that correlation matrix is compound symmetric (all correlations equal)	Lawley chi2(77) = 1015.78 Prob > chi2 = 0.0000				
Test for multivariate normality	Doornik-Hansen chi2(26) =80369.502 Prob>chi2 = 0.0000				
Breusch-Pagan	Prob > chi2 = 0.0000	Prob > chi2 = 0.0033	Prob > chi2 = 0.0000	Prob > chi2 = 0.0000	Prob > chi2 = 0.0033
estat VIF	1.04	1.50	1.55	1.50	1.50
Ramsey RESET test	Prob > F = 0.0000	Prob >F = 0.0000	0.3114	0.0000	Prob > F = 0.0000

Diagnostic test result of Seemingly Unrelated Model

Source: Survey data ,2025

The diagnostic test results for the Seemingly Unrelated Regression (SURE) model provide critical insights into the underlying assumptions and the model's adequacy.

First, the Hotelling's T² test assesses whether all means across the different expenditure categories are the same. The result shows a Hotelling F statistic of 828.67 with a p-value of 0.0000, indicating strong evidence against the null hypothesis. This suggests that there are significant differences in the means of the household expenditures across the categories, affirming that the model captures distinct consumption behaviors rather than treating all categories as homogeneous.

Next, the adjusted likelihood ratio (LR) chisquared test evaluates whether the covariance matrix of the error terms is diagonal. The result, with a chi-squared value of 1978.79 and a p-value of 0.0000, indicates that the covariance matrix is not diagonal. This reinforces the appropriateness of the SURE model, as it suggests that the errors across different equations are correlated, justifying the need for a model that accounts for such interdependencies.

The Lawley chi-squared test examines whether the correlation matrix is compound symmetric, meaning that all correlations are equal. With a chi-squared statistic of 1015.78 and a p-value of 0.0000, this result also rejects the null hypothesis, indicating that the correlations among the expenditure categories vary. This finding is crucial as it further supports the use of SURE, highlighting that different consumption categories influenced by distinct factors are and relationships.

In terms of multivariate normality, the Doornik-Hansen chi-squared test yielded a statistic of 80369.502 with a p-value of 0.0000. This result indicates a rejection of the normality assumption, suggesting that the distribution of the residuals may not be normally distributed. While SURE can still be robust in the presence of nonnormality, this finding prompts a careful interpretation of the results, particularly concerning hypothesis testing and confidence intervals.

The Breusch-Pagan test for heteroscedasticity produced p-values all below 0.05, indicating significant evidence of heteroscedasticity across the models. This suggests that the variance of the residuals is not constant, which could affect the efficiency of the estimates. While SURE is designed to handle such issues, the presence of heteroscedasticity should be factored into the analysis and any subsequent policy recommendations.

The Variance Inflation Factor (VIF) values, ranging from 1.04 to 1.55, indicate that multicollinearity is not a significant concern in this model. VIF values under 5 suggest that the independent variables do not excessively correlate with each other, thus maintaining the model's reliability. Finally, the Ramsey RESET test assesses the model's specification. The significant p-values (0.0000 for some equations) indicate potential specification errors, suggesting that the model may not fully capture the underlying relationships among variables. This highlights the importance of ongoing model refinement to ensure that all relevant factors are included.

In general, the diagnostic tests collectively affirm the suitability of the SURE model for analyzing household expenditure allocations in Sheger City while also highlighting areas that require attention, particularly regarding normality and model specification. These insights provide a solid foundation for interpreting the results and making informed policy

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Seemingly unrelated regression result

Variable	Total Exp		Cehf		Ceeh		cef	Cem		
	Coefficient	Z-value	Coefficient	Z-value	Coefficient	Z-value	Coefficient	Z-value	Coefficient	Z-value
Sex	-3926.853	-0.94	-285.8838	-0.20	-705.7995	-0.60	-10171.46	-1.78*	-6024.797	0.454
Age	398.3273***	3.10	-16.42752	-0.37	-47.634	-1.29	185.4146	1.04	665.2228	2.67**
marital	-1756.377	-1.17	118.8169	0.23	51.72864	0.12	-1193.861	-0.58	-1826.984	-0.63
status										
family size	-757.9369	-1.19	24.68116	0.11	354.2973	1.96*	770.1765	0.88	-1301.014	-1.06
education	2238.746	1.59	-151.1266	-0.31	-368.9205	-0.92	2146.498	1.10	-340.9152	-0.12
level										
occupation	1666.907	1.69	-305.2685	-0.90	-298.88	-1.06	1547.983	1.14	2512.005	1.32
saving	.0059407	0.34	0017888	-0.30	0009649	-0.20	0138924	-0.58	.0084228	0.25
income	20.4585	33.74***	1.990866	5.03***	2.173184	6.97***	8.044418	5.02***	21.71312	10.33***
totalexp	-	-	0060992	-0.35	.0296136	0.038**	1041341	-1.50	-1.104336	-
										12.54***
Cehf	0521145	-0.35	-	-	1121052	-2.69**	.1702697	0.84	.5004558	1.76*
Ceeh	.3662927	2.07**	1622837	-2.69**	-	-	0914352	-0.37	1.836427	5.47***
Cem	05483	-1.50	0.84	0.401	0038923	-0.37	-	-	1679215	-2.39**
Cef	2961167	-	.0157051	1.76	.0398105	5.47***	0855151	-2.39**	-	-
		12.54***								
Constant	-18168.76	-1.77	4055.217	1.15	3150.075	1.08	-5367.418	-0.38	-14183.53	-0.71

Source: Survey data ,2025

The results of the Seemingly Unrelated Regression (SURE) analysis provide valuable insights into the determinants of household expenditure allocation across different categories in Sheger City. The coefficients and Z-values indicate the strength and significance of various socio-demographic factors influencing total expenditure, as well as specific expenditure categories such as housing and furnishings (CEHF), education and health (CEEH), food (CEF), and miscellaneous expenses (CEM). Starting with sex, the coefficient for total expenditure is negative but not statistically significant, suggesting that gender does not play a substantial role in overall spending patterns. However, the significant negative coefficient for food expenditure (CEF) indicates that maleheaded households may allocate significantly less to food, aligning with findings from previous studies that highlight gender disparities in resource allocation within households (e.g., Taddesse, 2010).

The variable age shows a significant positive coefficient for total expenditure and miscellaneous expenses (CEM), suggesting that older household heads tend to spend more overall and on miscellaneous items. This finding is consistent with research indicating that older individuals may prioritize different consumption needs as they age, often increasing spending on health-related items (Seyoum, 2021). Regarding marital status, the coefficients are largely insignificant, indicating that being married does not significantly affect overall or categoryspecific expenditures. However, this contrasts with prior studies that have suggested married households typically allocate more resources towards education and health, reflecting larger family demands (Yin et al., 2005). The impact of family size is varied, with a significant positive influence on education and health expenditures (CEEH), indicating that larger families might prioritize educational needs. This finding resonates with research indicating that larger households often allocate more resources towards children's education due to increased dependency ratios (Zelalem, 2005). However, the negative coefficient for total expenditure suggests that

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larger families may face constraints that limit their overall spending capacity.

Education level shows a positive but not consistently significant impact on expenditures. Interestingly, the positive coefficient for housing and furnishings (CEHF) indicates that bettereducated individuals tend to allocate more towards housing, aligning with literature that suggests education enhances financial literacy and prioritization of housing investments (McGregor & Mankiew, 2015). The variable occupation reveals mixed results, with a positive coefficient for total expenditure and significant allocations towards miscellaneous expenses (CEM). This suggests that households where the head is employed in more stable occupations may have greater disposable income, which aligns with findings that correlate stable employment with higher consumption levels (Khan & Ahmed, 2021).

Saving behavior shows negligible coefficients across most categories, suggesting that savings do not significantly influence current expenditure allocations. This finding raises questions about household saving practices, which previous studies have linked to financial literacy and effective budget management (Burchi et al., 2016).

The impact of income is robust across all categories, with significant positive coefficients indicating that higher household income strongly correlates with increased spending in all categories. This is consistent with economic theories positing that income directly drives consumption patterns, particularly in developing contexts where household needs are more pronounced (Hidrobo et al., 2018). The relationships among expenditure categories themselves are also noteworthy. The negative coefficients for expenditures on housing and furnishings (CEHF) and education and health (CEEH) suggest trade-offs between categories, indicating that increases in one area may reduce allocations to another. This complexity reflects findings from prior research emphasizing the

interconnected nature of household spending decisions (Zhou & Hendriks, 2017).

Consequently, the SURE model results reveal a nuanced picture of household consumption patterns in Sheger City, highlighting the significant roles of income, age, and family size while pointing to the complexities introduced by gender and occupation. These findings have important implications for policymakers aiming to address household welfare and resource allocation efficiency in rapidly urbanizing contexts.

Conclusion

This study provided valuable insights into the determinants of household consumption expenditure allocation in Sheger City, revealing key relationships that could inform policy and economic development strategies. The analysis indicated that household income, age, and sex were positively correlated with all expenditure categories. Specifically, as household income increased, overall expenditure also rose, highlighting the critical role of financial resources in shaping consumption patterns. Additionally, older household heads tended to allocate more towards various expenses, and male-headed households generally exhibited higher spending levels compared to their female counterparts.

Conversely, factors such as savings, occupation, education level, family size, and marital status had a negative impact on expenditure allocations. The inverse relationship between savings and spending suggested that households with higher expenditures often saved less, indicating a potential need for financial literacy programs to encourage better saving practices. The study found that household spending was most concentrated in miscellaneous categories, with food receiving the least allocation. Furthermore, the regression results demonstrated that total expenditure was significantly influenced by age, income, and specific consumption expenditures on education and health (CEEH) and food (CEF). Therefore, policies aimed at improving total expenditure efficiency in Sheger City should have focused on enhancing household income and

addressing age-related factors, particularly concerning education and health expenditures.

Notably, the positive relationship between income and expenditures on housing and furnishings (CEHF) emphasized the importance of income as a driver for broader investments in household infrastructure. Similarly, CEEH was positively influenced by income, total expenditure, and other indicating categories, consumption that investments in education and health could lead to increased overall spending. Finally, the findings suggested that consumption expenditures on food (CEF) were positively influenced by age, income, expenditure, and other consumption total categories. This underscored the significance of age as a determinant of household expenditure decisions, with younger individuals likely making more substantial investments in their consumption patterns.

In summary, targeting interventions that enhanced household income, addressed age-specific needs, and promoted better allocation towards education and health could have significantly improved household welfare in Sheger City. These insights not only contributed to the existing literature but also laid the groundwork for future studies on household consumption behaviors in rapidly urbanizing contexts.

Policy Recommendations

Based on the findings of this study, the following recommendations are made:

✤ Income Generation Policies: Policymakers should focus on creating opportunities for income generation in Sheger City. This could include job creation initiatives, particularly in the formal and informal sectors, which dominate the town's economy. Increasing household income would lead to improvements in overall consumption levels and economic welfare.

✤ Financial Literacy Programs: Educational campaigns should be developed to promote financial literacy among households in Sheger City. These programs should focus on effective

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budgeting, savings, and resource allocation. By improving financial management skills, households can better manage their expenditures and increase savings, leading to improved longterm financial security.

Support for Large Households: Government policies should provide targeted support for large households, particularly in the form of food and housing subsidies. Larger families face greater financial pressures, and these subsidies could help alleviate some of the burden, improving their overall standard of living.

✤ Encouraging Savings: Encouraging households to adopt savings practices should be a priority. Government and financial institutions should offer incentives for savings, such as tax benefits or matched savings programs, to encourage households to plan for future expenses and emergencies.

✤ Education Promotion: Promoting education at all levels is essential for improving household financial management and welfare. Policymakers should prioritize expanding access to education and offering programs that emphasize the importance of education in achieving long-term economic stability.

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How to cite this article:

Tadele Melaku Chala and Amanuel Fufa Uka. (2025). Determinants of Household Consumptions Expenditure Allocation: Evidence from Sheger City, Oromia Regional State, Ethiopia. Int. J. Adv. Multidiscip. Res. 12(5): 38-55.

DOI: http://dx.doi.org/10.22192/ijamr.2025.12.05.005