

FACTORS AFFECTING THE CONSUMER DEMAND
FOR SUGAR IN SRI LANKA

By

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ABSTRACT

Sri Lanka relies mainly on imports to satisfy the domestic requirements of sugar and spends a considerable amount of foreign exchange earnings on imports of sugar. Of the essential consumer goods imported, sugar costs the country most. Furthermore, sugar is an important item in the dietary pattern of the Sri Lankan people regardless of sector or income. This is the fourth important source of energy in the diet of people of in Sri Lanka. Most people in Sri Lanka consume considerably more sugar than the recommended level of 10 kg. per annum to maintain and regain lost energy. Furthermore, it is expected that the demand for sugar will rise further due to the ban on the use of saccharin in cordials, aerated waters etc.,. In this context, the study of factors affecting the consumer demand for sugar in Sri Lanka is highly necessary and relevant for policy formulation.

This study is an attempt to identify and evaluate the factors that affect the per capita and household consumption of sugar in Sri Lanka. In order to estimate both types of demand, two consumer demand models were constructed, one was to identify and evaluate the factors which influence the per capita consumption of sugar over the period 1961 - 1990 and the other was to identify and evaluate the factors which influence the household consumption of sugar in different sectors namely, urban, rural and estate.

To estimate the factors of both types of demand models, five different forms of equations namely, linear, semi-log, double-log, quadratic and inverse were used. All the equations were estimated by using the OLS method. The computer statistical package RATS was used for estimating all the explanatory variables. Of the many equations estimated, the double-log function and semi-log were chosen for interpretation because of their supremacy over the others.

Based on the estimated coefficient of the demand model for per capita consumption of sugar, the price and income elasticities were found to be significant but less than one. This price inelastic nature of the demand for sugar indicates that sugar is an essential item for Sri Lankans while income elasticity indicates that any increase in per capita disposable income will increase the per capita consumption of sugar by almost the same proportion as change in income in future.

The estimated income elasticities of the demand model for the household consumption of sugar suggested that income constraints were less significant in the urban sector and relatively more significant in the rural and estate sectors. It further indicated that the household demand for sugar was inelastic in all three sectors. It was found that each age group of persons, ie, below 5 years of age, between 5 and 45 of years and over 45 years of age, was positive and highly significant in all three sectors. At the same time, it was found that

middle aged group of persons had a relatively higher impact on household consumption of sugar. Further, the elasticities among food stamp recipients though highly significant in the urban and estate sectors was not so in the rural sector. This implies that the food stamp scheme had been effective only in urban and estate sectors.