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**DECOMPOSITION OF SPATIAL
INEQUALITY IN SRI LANKA: A QUANTILE
REGRESSION ANALYSIS**

This independent thesis is submitted to the
University of Peradeniya as a partial requirement
for Master of Philosophy Degree in Economics

Kumara P. H. T
HD/Mphil/03/04/153

Department of Economics and Statistics
Faculty of Arts
University of Peradeniya
Peradeniya
Sri Lanka

648545



Abstract**DECOMPOSITION OF SPATIAL INEQUALITY IN SRI LANKA:
A QUANTILE REGRESSION ANALYSIS**

Kumara P.H.T.

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This study analyzes the spatial inequality (between urban sector and rural sector and between the Western province and the rest of the country) in Sri Lanka, using household consumption expenditure as a proxy measure of household welfare. Household Income and Expenditure Survey (HIES) 1995/96 and 2002 are used in analyzing the sources of consumption inequality by applying a quantile regression decomposition technique. Spatial inequality is decomposed into two segments i.e. inequality that is due to the differences in household endowments and inequality that is due to the differences in location specific returns to these endowments, using both Machado-Mata and Blinder-Oaxaca decomposition techniques. Recent studies on poverty and inequality in Sri Lanka have shown an increasing trend in inequality, with the result that widening inequality has reduced the growth impact on poverty. This study finds education, agricultural related employment, household size, race and gender are the major consumption determinants in Sri Lanka. Differences in location specific returns to the household endowments matter more than the differences in household characteristics in determining the consumption level of the households while the household characteristics are important in the upper income quantiles in the urban sector. The study suggests improvements for location specific returns by improvising the infrastructure in order to escalate poverty reduction in Sri Lanka.