

ABSTRACT

Understanding consumer behavior is central to economics. This study empirically estimates the Engel curve for Indonesian households and investigates Indonesian households' consumption patterns for selected commodities. Using the IFLS data wave 5, covering 15,118 households across Indonesia and various Engel curve specifications, the study found that food and fuel are classified as necessities, whereas clothing, transportation, and other goods are luxury goods. Food, transportation, and other goods are non-linear, while clothing and fuel are linear in parameters. Furthermore, this study used instrumental variables to moderate the endogeneity. The results of different Engel curve specifications show significance in Indonesian household data with the existence of apparent heteroskedastic errors due to heterogeneity in preferences. In general, the household consumption pattern is shown to be consistent with the Engel law and the previous evidence.

Keywords: Engel Curves, Household Consumption, Engel Law

JEL classification: D12, D11, D00