

Analysis of household consumption function based on permanent income hypothesis in Sabah, Malaysia: A conceptual framework

ABSTRACT

In the past, Sabah has often been reported as Malaysia's poorest state, with the recorded highest incidence of absolute poverty among all the other states. The consumption patterns of households in Sabah have been significantly impacted by such circumstances. This further draws light on the adverse impact on the broader economy, as low levels of spending may restrict demand for products and services, stifling economic growth. The understanding of households' consumption functions based on the Permanent Income Hypothesis (PIH) will advance knowledge in identifying the key factors that influence the households' spending decisions. Pointing out the scant number of past studies done within this very context, and focusing on the Sabah state in particular, further motivated this study, this paper aims to develop a conceptual framework that can estimate and examine the households' consumption functions in Sabah. As such, the methodology of drawing upon narrative reviews from research in the past will be used in this paper to develop the conceptual framework. The result of this study built upon the framework developed will help in identifying the factors that explain the households' consumption patterns, in particular, whether the function estimated will be consistent with the Permanent Income Hypothesis (PIH). It is hoped that the conceptual framework built will aid in providing valuable empirical insight for policymakers in designing effective policies that can uplift households that are living in poverty.