

CHAPTER 2

LITERATURE REVIEWS

This chapter reviews related text that is useful in this study. Firstly, in section 2.1, some interesting ideas behind the inventory of household production concept are reviewed.

Section 2.2 concerns the concept of household production which was pioneered by Becker (1965). Its central feature is that a family is viewed as a quasi-firm engaged in the production of “household commodities”. The commodities may be concrete or abstract. These commodities are produced by the consumer unit itself through the productive activity of combining 1) purchased market goods and/or services 2) the household’s own time and 3) “environment variables”. The environmental variables reflect the state of the art of production, the level of technology of the production process, or skills.

The environmental variables may be categorized as a type of “human capital” in the sense that 1) they turn raw materials into a product, and that 2) they accumulate via investment process. However, based on the concept of household production, many studies on environmental variables do not focus on their function in raising market value of time. On the other hand, the role of environmental variables in raising the productivity of nonmarket consumption activities and consequently in affecting their optimal investment path over time becomes more interesting.

2.1 The Concept of Household Production: Its Antecedents

Principle of Legislation stated in Bentham (1931) involves a list of fifteen “simple pleasure” which Bentham argued to be “the inventory of our sensations.” These pleasures, which are supposed to exhaust the list of basic arguments in one’s pleasure (i.e., utility) function are of senses, riches, address, friendship, good reputation, power, piety, benevolence, malevolence, knowledge, memory,

imagination, hope, association and relief of pain. Presumably these pleasures are “produced” partly by the goods purchased in the market sector.

Marshall (1961) suggested an even smaller set of arguments for the utility function when he stated that the basic sources of satisfaction are but two: distinction and excellence. The household production functions are an attempt to develop a theory of consumer choice consistent with Marshall’s contention.

Many discuss of the notion that goods are desired not for their own sake but for some specific service. In discussing the concept of consumption, Senior (1965) notes that “the word consumption has been applied universally as expressing the making use of any thing”, and hence he suggests that, “it would be an improvement in the language of Political Economy if the expression ‘to use’ could be substituted for that ‘to consume’.” Indeed, the interpretation of consumption as both the exchange of money for market goods and services and, concomitantly, the acquisition of utility from these goods and services, has little intuitive appeal. This interpretation of consumption sheds no light on whether the utility is derived from the acquisition, possession, or utilization of the purchased item. By emphasizing that the consumption of the market good involves its use in the production of a more basic commodity, insight is provided into the nature of the usefulness of the good.

Another antecedent is the effort to analyze and quantify the extent of production of goods and services within the home. Reid’s 1934 volume *Economics of Household Production* exemplifies this effort. Reid discussed changes over time in the nature and methods of household production (defined as unpaid activities carried on by and for household members but which could be replaced by market goods and services). Reid emphasizes the importance of good decision making in the managerial role in household production and both point out the difficulty in wild-spread application of “scientific management” in the household.

The household production function approach to consumer behavior adopts the notion of production in the home but extends it to incorporate all nonmarket activities and place greater emphasis on technical aspects of multi-commodity production.

2.2 The Concept of Household Production

This reformulation transforms the family from a passive maximizer of the utility from market purchases into an active maximizer also engaged in extensive production and investment activities. In traditional theory, households maximize a utility function of goods and services bought in the marketplace, whereas in the reformulation they maximize a utility function of objects of choice, called commodities.

The commodities may be as concrete as meals and laundry or as abstract as relaxation and love. Unlike the products of a commercial firm, household commodities are consumed by family members rather than being sold. But like the products of a firm, household commodities can only be produced with scarce resources; they require inputs of purchased goods, household labor, and environment variables". The environmental variables reflect the state of the art of production, the level of technology of the production process, or skills. For example, a traditional, home-cooked meal is produced when a family member combines purchased inputs (such as meat, milk, and flour), with machine services (of sink, stove, refrigerator), and his or her own skilled labor to produce a valued output, which is promptly consumed by family members. As this example suggests, a fair amount of household production is just a scaled-down version of market production.

Real strength of the household production approach lies in its applicability to abstract commodities such as recreational enjoyment, relaxation, health, and childrearing. So, for example, even though we can not quantify the relaxation and enjoyment that come from recreational activities, we may usefully speak of households "producing" this commodity by combining purchased inputs (such as ski equipment, automobile services, or VCR's, TV's, and stereos) with their own skilled labor and time.

In this framework all market goods are inputs used in production processes of the nonmarket sector. The consumer's demand for these market goods is a derived demand analogous to the derived demand by a firm for any factor of production.