

analytical purposes for which they are increasingly being used. I shall have something to say on both of these topics.

1.2.2_ Survey data in policy and development

Why should development economists be interested in household survey data? If the ultimate aim of economic activity is the welfare of individuals, then the data from household surveys are the measure of its success. Although GDP and GNP per capita are often used as summary measures of welfare, in many countries they are derived with the help of household survey data, and even when this is not the case and consumption is derived as a residual, survey data provide a cross-check, and in many cases will provide higher quality data. But even at their best, national income measures can tell us only a very limited amount about distributional issues, about allocation by region, by ethnic group, by poor versus rich, or by rural versus urban. As economic development expands opportunities, we want to know who is benefiting, and who (if anyone) is losing. Indeed, as Stigler (1954) has documented, the first explorations of household budgets were carried out by social activists in the late eighteenth and early nineteenth centuries, and their object was to inform (and shock) policy makers and to lay the basis for reform. Counting the poor, documenting their living-standards (including nutritional standards), and measuring inequality remain important uses of household survey data by development economists.

Household survey data also yield direct measures of the effects of policy changes, whether these operate through price changes or through changes in the provision of public services. They can therefore provide the background information for informed discussion of possible changes in policy. In particular, quantities produced and consumed provide a local approximation to the derivative of welfare with respect to price. To see this in an example, suppose that a farm (or non-farm) household faces output prices p (labor is an output) and input prices u , and receives off-farm income y , that its technology can be represented by the (restricted) profit function $\pi(p, v; a)$ where a is a vector of fixed factors such as land, and that its preferences can be represented by the expenditure or cost function $c(u, p)$ for utility a , since without loss of generality, all consumption goods can be taken to be outputs. Then, since utility must be financed from farm profits or other income, we have

$$c(u, p) = \pi(p, v; a) + y \quad (1)$$

Equation (1) immediately tells us by how much income y would have to be increased to compensate the household for a change in a price of one of its inputs or outputs. Since the partial derivatives of the cost function with respect