O. introduction

The empirical analysis of consumer behavior has always held a central position in econometrics and many of what are now standard techniques were developed in response to practical problems in interpreting demand data. An equally central position in economic analysis is held by the theory of consumer behavior which has provided a structure and language for model formulation and data analysis. Demand analysis is thus in the rare position in econometrics of possessing long interrelated pedigrees on both theoretical and empirical sides. And although the construction of models which are both theoretically and empirically satisfactory is never straightforward, no one who reads the modern literature on labor supply, on discrete choice, on asset demands, on transport, on housing, on the consumption function, on taxation or on social choice, can doubt the current vigor and power of utility analysis as a tool of applied economic reasoning. There have been enormous advances towards integration since the days when utility theory was taught as a central element in microeconomic courses but then left unused by applied economists and econometricians.

Narrowly defined, demand analysis is a small subset of the areas listed above, referring largely to the study of commodity demands by consumers, most usually based on aggregate data but occasionally, and more so recently, on cross-sections or even panels of households. In this chapter, I shall attempt to take a somewhat broader view and discuss, if only briefly, the links between conventional demand analysis and such topics as labor supply, the consumption function, rationing, index numbers, equivalence scales and consumer surplus. Some of the most impressive recent econometric applications of utility theory are in the areas of labor supply and discrete choice, and these are covered in other chapters. Even so, a very considerable menu is left for the current meal. Inevitably, the choice of material is my own, is partial (in both senses), and does not pretend to be a complete survey of recent developments. Nor have I attempted to separate the economic from the statistical aspects of the subject. The strength of consumer demand analysis has been its close articulation of theory and evidence and the theoretical advances which have been important (particularly those concerned with duality) have been so precisely because they have permitted a more intimate contact between the theory and the interpretation of the evidence. It is not possible to study applied demand analysis without keeping statistics and economic theory simultaneously in view.

The layout of the chapter is as follows. Section 1 is concerned with utility and the specification of demand functions and attempts to review the theory from the