

**Abstract for “Estimating Intra Country and Cross Country Purchasing Power Parities from Household Expenditure Data Using Single Equation and Complete Demand Systems Approach: India and Vietnam”**

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This study departs from the previous literature on purchasing power parity (PPP) by proposing a demand system based methodology for calculating the PPP that takes account of consumer preferences and allows for the substitution effect of price changes. The methodology is applied to provide evidence on PPP between the Indian Rupee and the Vietnamese Dong.

The study is conducted within a framework that allows for regional variation in preferences and price changes both inside the country and between countries and proposes and applies a methodology for constructing prices from unit values after adjusting them for quality and demographic effects. Using these prices the intra-country PPPs for India and Vietnam are calculated using the single equation (Engel curve based) procedure of Coondoo, Majumder and Chattopadhyay (2011). The cross country PPPs are calculated between sectors and across expenditure classes, apart from PPP at aggregate country to country level, using both the single equation and system based procedures.

The paper contains evidence that the incorporation of price effects leads to a significant change in the PPP rates obtained from using cross section data (single equation procedure) ignoring price changes. The demand system based methodology yields PPP rates that are consistent with those obtained from conventional procedures such as the CPD method, yields standard errors of the PPPs and has the additional advantage of testing for invariance of inter-country PPP across expenditure classes. The disaggregated PPP rates question the conventional practice of using a single economy wide PPP in inequality and poverty comparisons.

**Key Words**

Purchasing Power Parity, QAIDS, CPD method, Spatial Prices, TCLI

**JEL Classification**

C18, D11, E31, O53