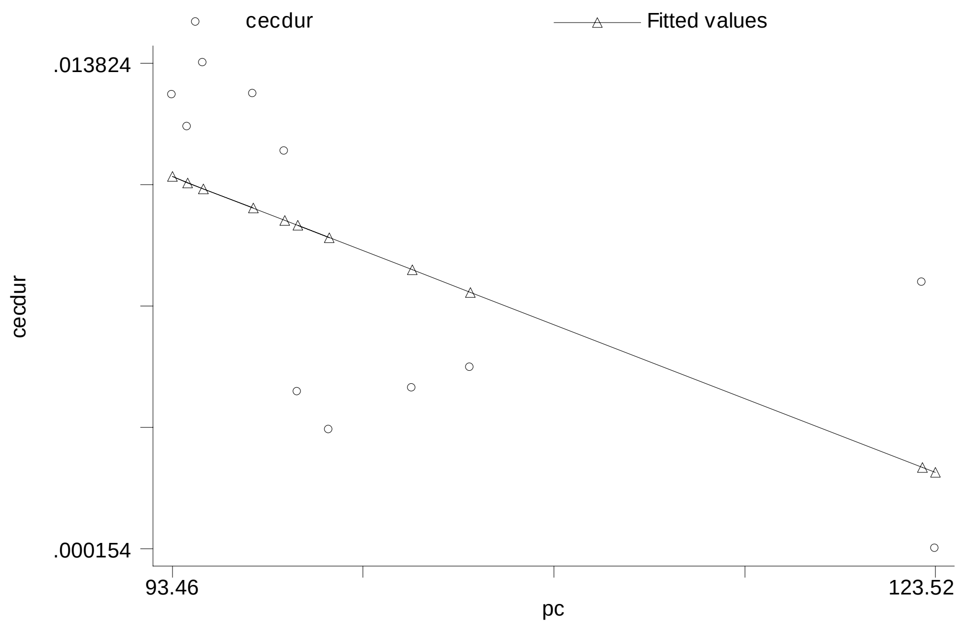
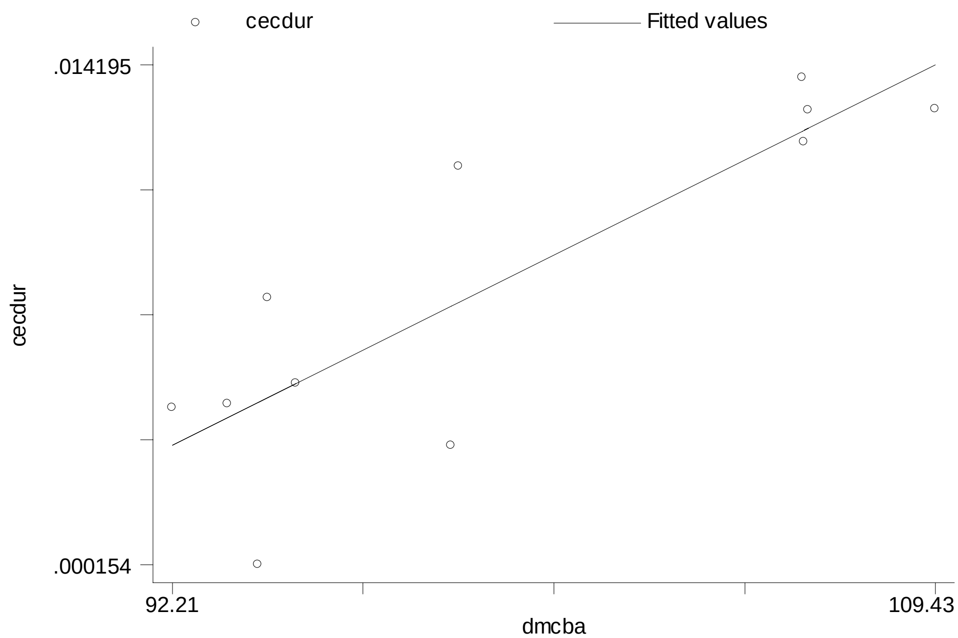
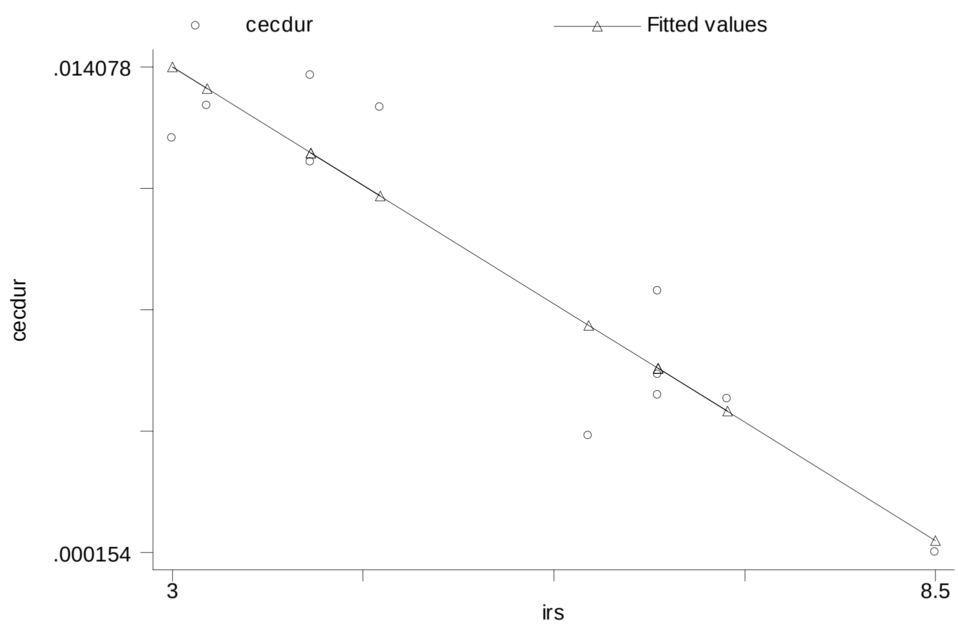
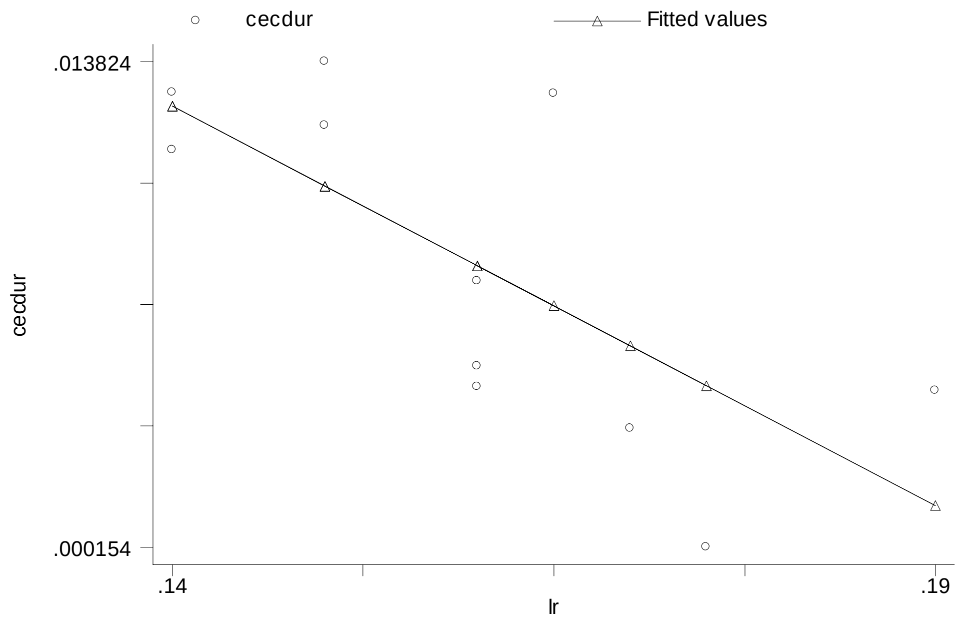
Annex 3: Graphs of financial variables on conditional demand elasticities

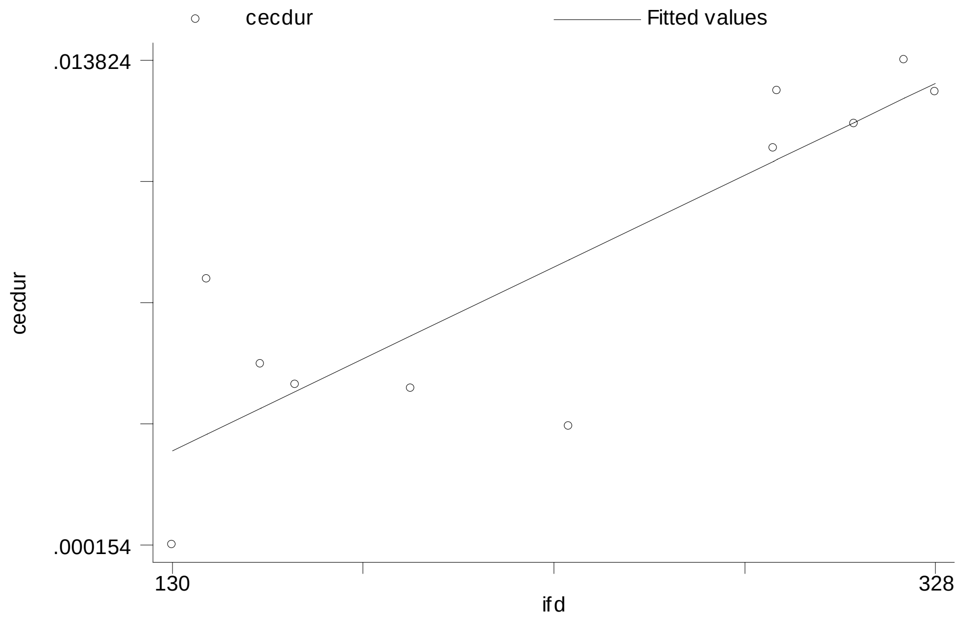
The graphs below show scatter plots and fitted regression lines for various financial development variables against mean conditioning elasticities for the demand for cereals with respect to durables expenditure (*cecdur*) and medical and educational expenditure (*cecmed*). The financial variables are *pc* (bank credit to the private sector), *dmcba* (deposit money to central bank assets ratio), *ll* (liquid liabilities to GDP ratio), *irs* (interest rate spread), *lr* (lending rate), *ifd* (index of financial development). These plots are for those regressions, where the association between the variables was strong. It should be noted that the elasticities are very low and if changes in elasticities are considered to be affected by financial development, the effects are very small. Some relationships are negative and others positive: relaxing a credit constraint can lead to substitution which would make the conditioning elasticities larger, but it could also be the case that relaxed credit constraints could make the elasticities smaller in the absence of substitution. Note finally that since we are interested in the magnitude of the elasticities we have ignored the negative signs on the original conditioning elasticities for simplicity.

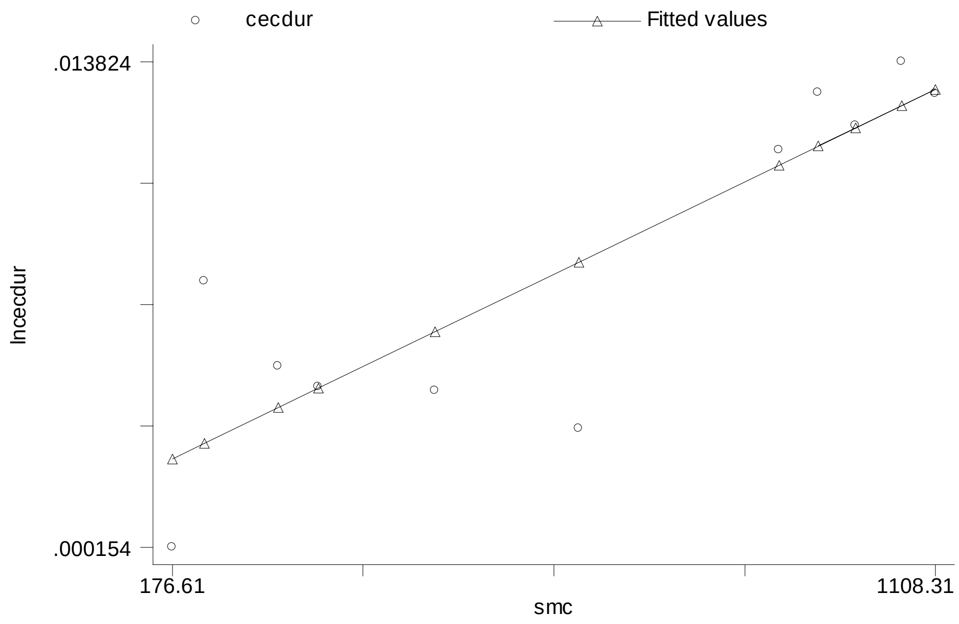


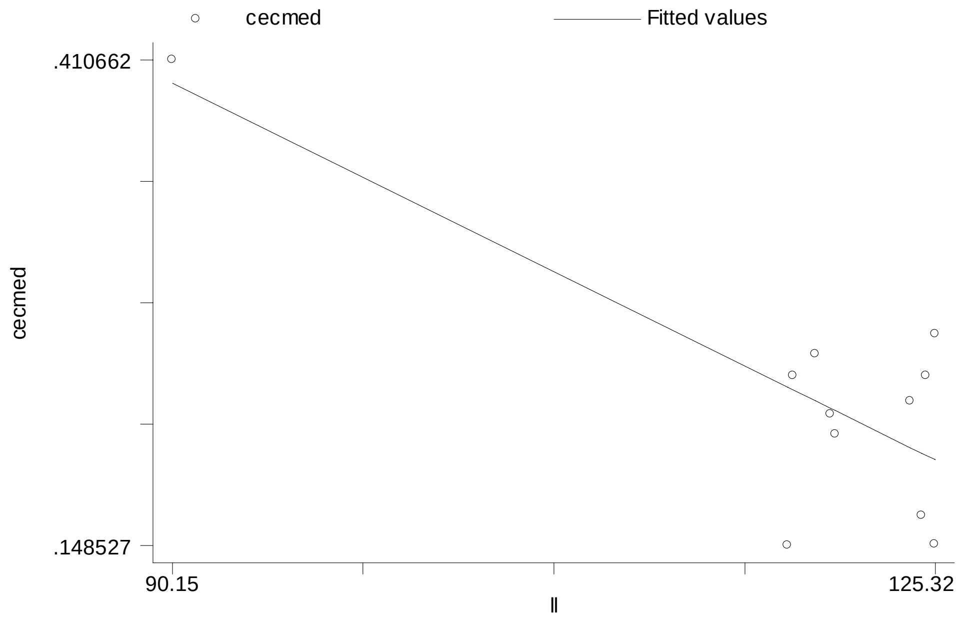

cecdur
Fitted values
.014195
.000154
cecdur
92.21
109.43
dmcba


cecdur
Fitted values
.014078
.000154
cecdur
3
8.5
irs


cecdur
Fitted values
.013824
.000154
cecdur
.14
.19
lr


cecdur
Fitted values
.013824
.000154
cecdur
130
328
ifd


cecdur
Fitted values
.013824
.000154
lncecdur
176.61
1108.31
smc


cecmed
Fitted values
.410662
.148527
cecmed
90.15
125.32
ll