

ABSTRACT

This dissertation evaluates the efficacy of using an asset index as a measure of economic wellbeing in the context of India. The research starts by looking at the existing literature to understand the strengths and weaknesses of using an asset index over the more traditional ways of measuring economic wellbeing such as per capita income or consumption. 3 rounds of NFHS data and 2 rounds of IHDS data are used to conduct the empirical work presented in this dissertation. Methodology of principal component analysis is used to derive the asset weights / loadings which are then used to calculate the household asset index which forms the basis of most of the empirical evidence provided in this dissertation. The assets included in the construction of the index are carefully selected to minimize any regional biases and make sure that the asset index is comparable at a national level. Several checks are performed to evaluate the robustness of the asset index scores to the choice of dataset used to derive the asset weights. The dissertation also evaluates the possibility of measuring inequality using the asset index methodology in the light of problems like asset clumping and truncation which are faced by most if not all asset-based indices. Finally, the dissertation evaluates if the asset index is better suited to be a measure of human development instead of economic development.

The dissertation concludes that, asset indices are much better at capturing human development than they are at capturing economic development. Most of the traditional measures of inequality like Gini Index, 95th percentile by 5th percentile, etc. are not suited to be used with the asset index scores. Due to the lack of tail end variation captured by asset indices, they are limited in their ability to provide valuable insights about economic inequality. Therefore, using asset index based evidence, to provide insights on economic inequality can lead the researcher to dangerously wrong conclusions. So far, the asset index methodology has been developed completely from an empirical standpoint. More theoretical research on asset indices would help this methodology flourish and provide interpretable insights in scenarios where income and consumption data are not available.

Keywords: *Asset index, Principal Component Index, Asset Inequality, Inequality Analysis*