

PROBLEMS AND MITIGATION METHODS AGAINST INFLATION IN AMBIKAPUR CITY

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Abstract: Inflation is merely rise in prices of commodities and devaluation of money. It directly influences the standard of living of the people. This paper studies the impact of inflation on standard of living in terms of expenses on food and non-food items, income, savings, and recreational activities. A sample of 50 respondents was taken from the Ambikapur region. It was inferred from the analysis that inflation did highly affect the middle class families. People are compelled to get loan and to do over work, to fulfill their family expenditures due to the inflation. It is observed that the maximum expenditure is on Food followed by education, housing, apparel, transportation, medical care, personal care and loan. To mitigate the inflation effect generally people try to compromise quality on commodities, limit the household budget, and purchase items in large quantity eg. Grains- wheat, rice, pulses etc. Vegetable- potatoes, onions etc., Vegetable oil- mustard oil, refined oil etc.

Keywords: inflation, standard of living, Middle class consumers, Food inflation

Introduction: In economics, inflation is a persistent increase in the general price level of goods and services in an economy over a period of time. When the general price level rises, each unit of currency buys fewer goods and services. Consequently, inflation reflects a reduction in the purchasing power per unit of money – a loss of real value in the medium of exchange and unit of account within the economy. A chief measure of price inflation is the inflation rate, the annualized percentage change in a general price index (normally the consumer price index) over time. Inflation's effects on an economy are various and can be simultaneously positive and negative. Negative effects of inflation include an increase in the opportunity cost of holding money, uncertainty over future inflation which may discourage investment and savings, and if inflation is rapid enough, shortages of goods as consumers begin hoarding out of concern that prices will increase in the future. Positive effects include ensuring that central banks can adjust real interest rates (to mitigate recessions), and encouraging investment in non-monetary capital projects. The term "inflation" originally referred to increases in the amount of money in circulation, and some economists still use the word in this way. However, most economists today use the term "inflation" to refer to a rise in the price level. An increase in the money supply may be called monetary inflation, to distinguish it from rising prices, which may also for clarity be called 'price inflation'. Economists generally agree that in the long run, inflation is caused by increases in the money supply. An increase in the general level of prices implies a decrease in the purchasing power of the currency. That is, when the general level of prices rises, each monetary unit buys fewer goods and services.

According to [1] the average inflation rate in 2014 was 6.37% which decreased to 5.88% in 2015, however it increased to 5.91% in 2016. The higher inflation rate

affects the common man thus the present study focuses on the objectives:-

1. To study the effects of inflation on monthly household expenditures and savings of middle class families
2. To study the effect of inflation on children education expenditure

Literature review: When food prices rise; families with lower incomes feel the pinch more acutely since food expenditures make-up a larger share of their total expenditures. Inflation affects everybody that mostly hits the poor and incredulously augments their hunger because of foodlessness or less nutritious food; less likely to be productive and earn a living; and more vulnerable to illness, which is an undeniable fact [2]. Excessive adverse impacts may be observed throughout the globe whereas the poor are found specifically subject to the consequences as lower-income households spend a greater portion of their income on food and feel price hike more acutely than high-income families[3]. Rising food prices have already been battering the purchasing power of consumers [4] while [5] agreedly states that inflationary pressures around the world have intensified purchasing power in commodity-importing economies that has been eroded; and some low and middle-income countries face difficulties in ensuring adequate food supplies for their poorest citizens and are in danger of losing the gains in macro-economic stability achieved in recent years. According to [6] Report it is true that unscrupulous shopkeepers have taken advantage of the situation by raising prices as they haven't any other choice to meet their own inflated cost of living. [1] concludes that inflation is a global matter of concern because large segments of population have been affected while the marginalized sectors are comparatively more affected where a larger proportion of income is destined towards purchasing edibles. The implication

is obvious and the affecters are palpable as sharp rise in the price of rice, and food more generally, across Asian countries can be expected to wreak havoc among lower-income groups. In particular, a substantial increase in miseries may be expected of those who are already living below the poverty line, and can be expected to drive others into poverty [7]. Currently Indian finance minister P Chidambaram's pleas to stop buying gold in order to shore up the government's unprecedented trade deficit have had little impact, as the middle class continues to bank on bullion as a bulwark against unbridled inflation. "Despite the effort by the government to reduce, the Indian middle income group is bound by societal traditions and continues to buy gold even at higher prices which have increased the prices of gold due to rupee weakening," [8].

Methodology: The study was conducted in Ambikapur District of Chhattisgarh, India. Sample sizes of 50 household were randomly selected for the study. The study duration was from September 2015 to September 2016. The Primary data was collected using a structured questionnaire. All the questions were closed ended.

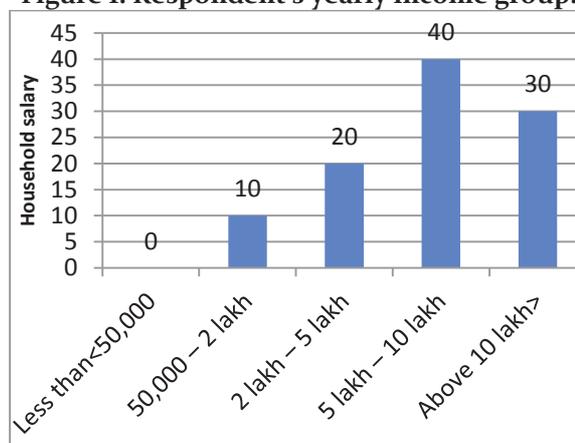
Results:

- Impact on family income and savings:** The maximum 40 per cent respondent fall under income group 5 lakh to 10 lakh yearly, followed by 30 per cent above 10 lakh, 20 per cent, 2 lakh to 5 lakh, 10 per cent 50 thousand to 2 lakh, of which 40 percent household were single salaried however 60 percent were double salaried (Figure 1). Of which 80 percent respondents are not able to manage their expenditure from their current monthly income and the savings have reduced drastically. 70% respondents managed their expenditure and saving by increasing the number of person employed in a single/ nuclear family.
- Impact on household budget :** Over 90 per cent of the respondents said that their monthly household bills have tend to jump by 15-20 per cent especially due to increase in prices of vegetables, fruits, oil etc. It is observed that the maximum 14.2 per cent expenditure is on Food followed by education 12 per cent, housing 8.7 per cent, apparel 7.6 per cent, transportation 7.1 per cent, medical care 4.2 per cent, personal care and loan 2.6 each (Figure 2). To mitigate the inflation effect 58 percent people are reducing their costs by going for discounts/sale, buying in larger quantities, compromising quality, reducing quantity of commodities etc.
- Spending on foreign branded clothes and apparels:** 65 per cent of the respondents have stopped buying foreign branded goods, 30 per cent wait for discount/ occasions for sales and 15

per cent travel to places to purchase goods in wholesale market to manage their current level of monthly budget.

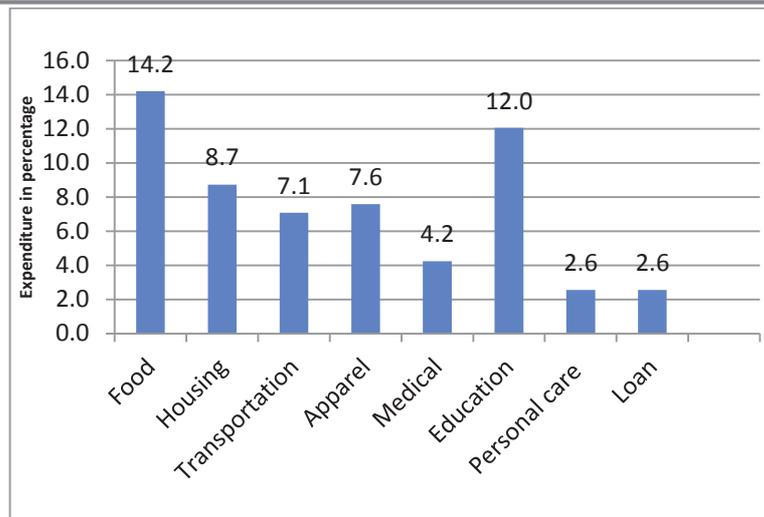
- Spending on purchase of new home appliances and vehicle :** 49 per cent are spending less on home appliances, 32 per cent have put off plans to buy a new vehicle and 15 per cent buy appliances through bank finance.
- Spending on recreational activities like eating in restaurants, travelling, movies etc. :** 30 per cent of respondents are avoiding eating out in restaurants and prefer to eat at local places on the weekends. 45 percent respondents are not going for travelling during vacation due to increasing fare charges and hotel charges. 15 per cent respondents plan for travel nearby places and only go for visit to far places if some government scheme eg. LTC, Tour and travels with heavy discounts etc.
- Spending on children education and other expenditure :** According to respondents education expenditure on children is increasing day by day because of which 40% of household have dropped the plan to send their children to developed/ metropolitan cities due to expenditure on food, living expenses and stay in rupee terms has risen sharply.

Figure 1: Respondent's yearly income group.



Conclusion: This survey on inflation assesses the real impact of inflation on the middle class. Among other things, the country's middle class has been forced to cut back on eating out, buying branded products or vehicles, vacations, and so on. People are fighting inflation using tactics such as buying loose and unbranded cereals, going to discount or neighborhood markets, taking advantage of discount sales and buying larger pack sizes. India's inflation is a combination of demand and supply-side factors and must be tackled comprehensively with monetary and fiscal measures by RBI and government.

Figure 2: Respondent's monthly average expenditure.



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