

IMPACT OF INFLATION ON HOUSEHOLDS' PURCHASING POWER WITH REFERENCE TO COIMBATORE CITY

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Abstract:

The study reveals that Inflation has a direct impact on households and how they are managing the rise in inflation in the society as a whole. The economy is meant only for Indian economy. Inflation assigned to a continued rise in price level and the process of aligning the price level was a crucial issue for households. Inflation was the only imminent fact of accelerated economic development, the upcoming technologies are also important for the market economy. This in turn, improves the contradictory systems in the economy. Inflation turns up due to shortcomings between demand and supply of money and / diversity in production & distribution cost or escalation in taxes on goods & services in market economy. One of the biggest challenges of our current situation is the obstacle of raising inflation and equalizing the essentials of growth in the economy for controlling inflations in the market for goods & services. Most of the economists has identified that the inflation arises due to lack of reforms in discharging the goods & services to the ultimate consumers. However the study reveals that inflations impact on households' day to day activity and how the increase in price rates are managed by the society as a whole.

Keywords: Inflation, Goods & services, Market economy, Households', Inflation rate.

I. Introduction:

Inflation is whereabouts general price rise and decrease in the value of money in the economy. There is an inverse relationship between price and purchasing power of households for the goods and services. This in turn increases wage rate, rent for godowns and interest for loans obtained by the producers. Flow of money is more in inflation period due to this there is a decrease in value of funds. Inflation has both positive and negative effects over the economy. Inflation has been managed through increasing the rate of interest in banks for deposits and savings by the governments which will increases the saving capacity of individuals in the upcoming years. Therefore, the study is fully related to the impact on households and how they are managing their purchasing power during the period of inflation.

Basic price indexes used in measuring inflation:

- Consumer price index (CPI)
- Producer price index (PPI)
- Wholesale price index (WPI)

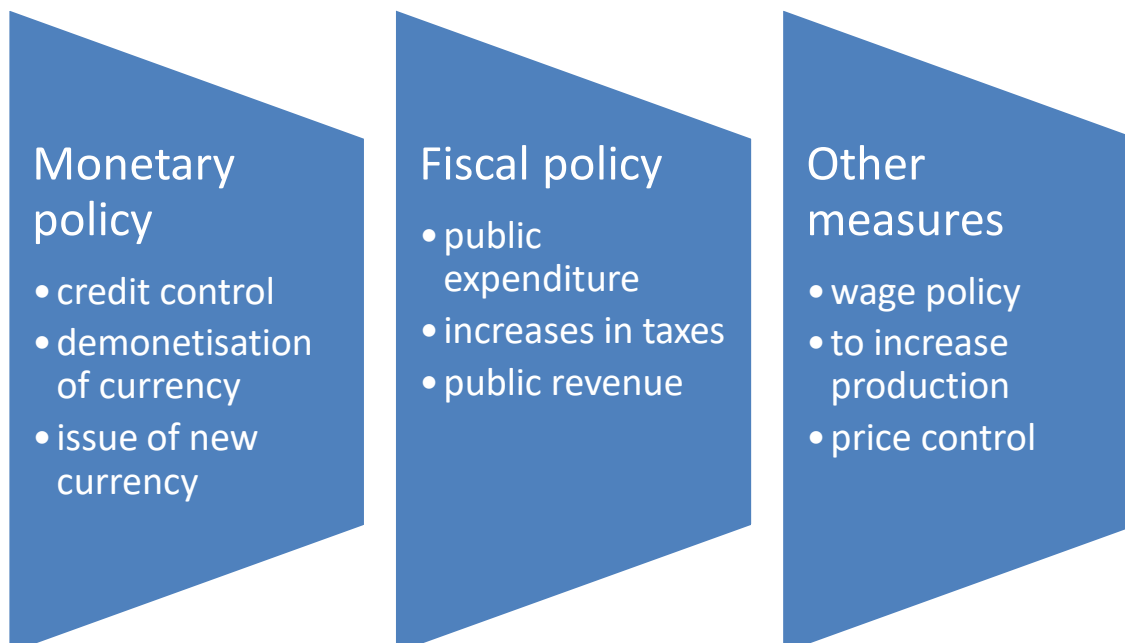
Types of inflation:

- Creeping Inflation
- Walking inflation
- Galloping inflation
- Hyperinflation
- Stagflation
- Core inflation
- Deflation
- Wage inflation

CAUSES OF INFLATION:

- Demand-pull inflation
- Cost-push inflation
- Monetary inflation
- Structural inflation
- Imported inflation

MEASURES OF INFLATION:



Effects of Inflation

- Wage Earners
- Producers
- Fixed Income Groups
- Borrower & Lender
- Tax Revenue

Purchasing power:

Purchasing power was the monetary value of a currency expressed in terms of money's worth for the goods and services for that one unit of money can buy. In investment terms, purchasing power was the amount of credit available for consumers to meet their needs. This in turn gives an additional safety measure against the prevailing nominal securities. Purchasing power is the quantity of goods and services that you can buy with a single currency at different time periods. The value of the currency falls, so you are forced to purchase fewer goods for the same amount of money.

Objectives:

- To explore the discrete dilemma related to household purchasing power.
- To examine the main sources causes the increasing and uncontrollable inflation.
- To find out the result of inflation on household purchasing power.
- To determine the effect of inflation on daily household expenses of the consumers.

Scope of the study:

This study will help us to find out the impact of inflation on household purchasing power. This study is conducted in urban area; it can be extended further to rural areas of the city/country. This data is useful only to the current year view on impact of inflation.

Limitations:

- This research is limited to the Coimbatore city.
- The data collected may not be sufficient to depict the real picture of the household purchasing power.
- These data is not applicable for the past and future study about the Impact on Inflation.
- This study is based on subjective opinion of the respondents and their participation.

Tools used:

Rank order scale

Rank order scale:

A Rank Order scale furnishes the respondent a set of items and asks them to put the items into some form of orders. The measure of 'order' can include such as preference, importance, liking, effectiveness and so on. The order is often a simple ordinal structure which is arranged according to rank. This is also known as Ranking Scale.

II. Review of the literature:

1. N.M. GATAWAA, AKINOLA ABDULGAFAR, MUFTAU O.OLARINDE (2017)¹. The empirical result from the long run concludes the positive increase on money supply. Inflation on both long run and short run, interest rate, growing on both periods needs financial institutions, monetary policy, SMEs funding fight against corruption.
2. HIO LOI, AHMED S. ABOU- ZAID (2016) ². Their study is based on GDP its effects on inflation of economy. Stabilize the real GDP, inflation effects on GDP rate which might results in deflation of the country for the consumers and also to the money supply.

III. Analysis and Interpretation:

Direct Impact of Inflation on Households

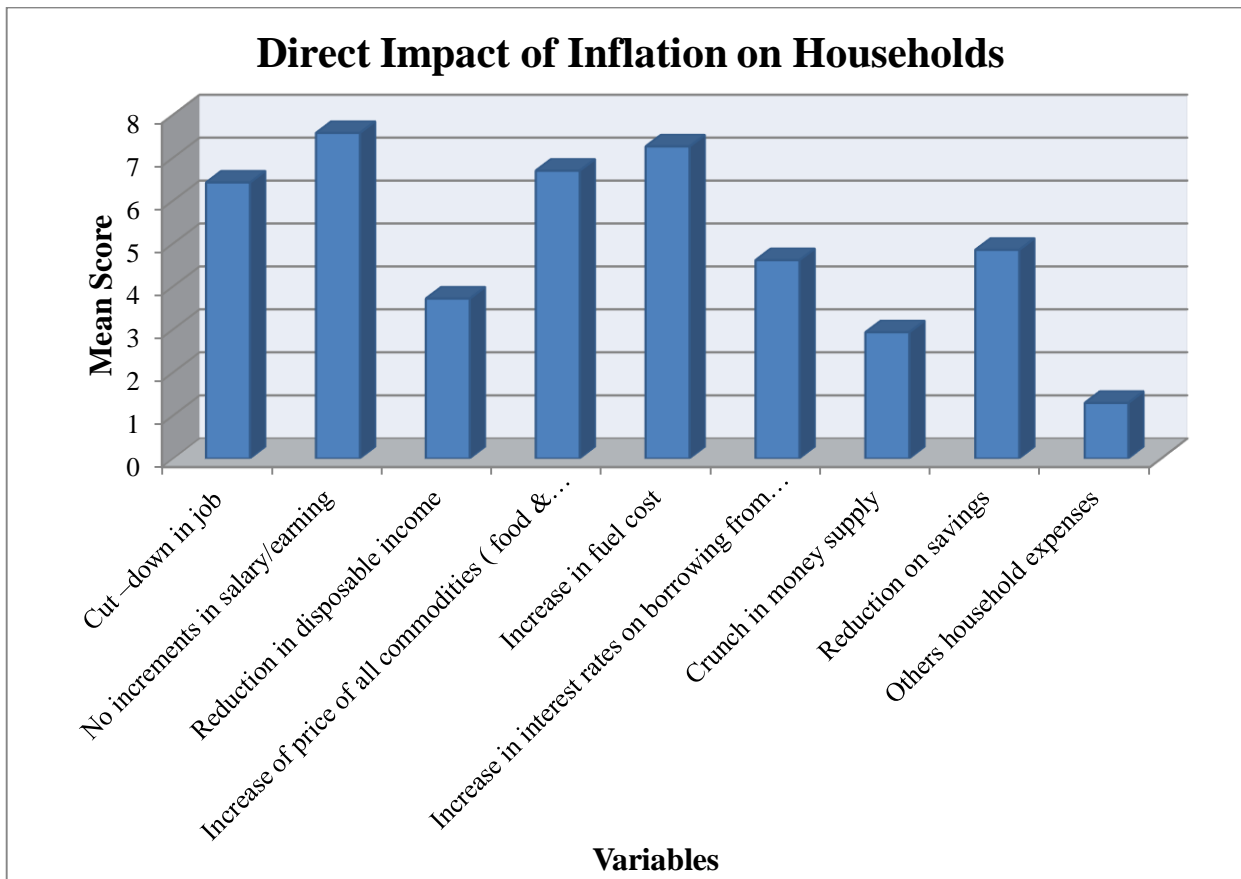
| S.No | Variables | Total Score | Mean | Rank |
|------|--|-------------|-------|----------|
| 1 | Cut –down in job | 1284 | 6.42 | 4 |
| 2 | No increments in salary/earning | 1515 | 7.575 | 1 |
| 3 | Reduction in disposable income | 743 | 3.715 | 7 |
| 4 | Increase of price of all commodities (food & non – food expenses) | 1339 | 6.695 | 3 |
| 5 | Increase in fuel cost | 1452 | 7.26 | 2 |
| 6 | Increase in interest rates on borrowing from financial institution (bank) | 922 | 4.61 | 6 |
| 7 | Crunch in money supply | 586 | 2.93 | 8 |
| 8 | Reduction on savings | 970 | 4.85 | 5 |
| 9 | Others household expenses | 258 | 1.29 | 9 |

Source: Primary Data

Interpretation:

The above table (4.22) depicts the direct impact of inflation on households are ranked on the view of respondents are no increment in saving/earning (1515), increase in fuel cost (1452), increase of price of all commodities (food & non food expenses) (1339), cut down In job (1284), reduction on savings (970), increase in interest rates on borrowing from financial institution (bank) (922), reduction in disposable income (743), crunch in money supply (586), and others household expenses (258)..

Hence it is ranked that the maximum impact of inflation on households will directly affects no increments in salary / earning (1515) and the minimum impact of inflation on households will directly affects other household expenses (258).



Manage the rising inflation rate

| S.No | Variables | Total Score | Mean | Rank |
|------|---|-------------|--------|-----------|
| 1 | Reduce quantity of food intake | 835 | 4.175 | 10 |
| 2 | Switch to lower quality food | 1906 | 9.53 | 3 |
| 3 | Reduce non-food expenditure | 1744 | 8.72 | 5 |
| 4 | Spend savings on day-to-day requirement / sell belongings | 1402 | 7.01 | 7 |
| 5 | Borrowing loan from private lenders | 993 | 4.965 | 9 |
| 6 | Borrowing loans from financial institution (bank) | 1680 | 8.4 | 6 |
| 7 | Seek help from community members | 1801 | 9.005 | 4 |
| 8 | Take children out of school | 240 | 1.2 | 13 |
| 9 | Decrease education expenses | 612 | 3.06 | 12 |
| 10 | Work more/Increase production | 2210 | 11.05 | 2 |
| 11 | Stop loan payment | 800 | 4 | 11 |
| 12 | Shifting of residence | 1261 | 6.305 | 8 |
| 13 | Overtime job | 2435 | 12.175 | 1 |

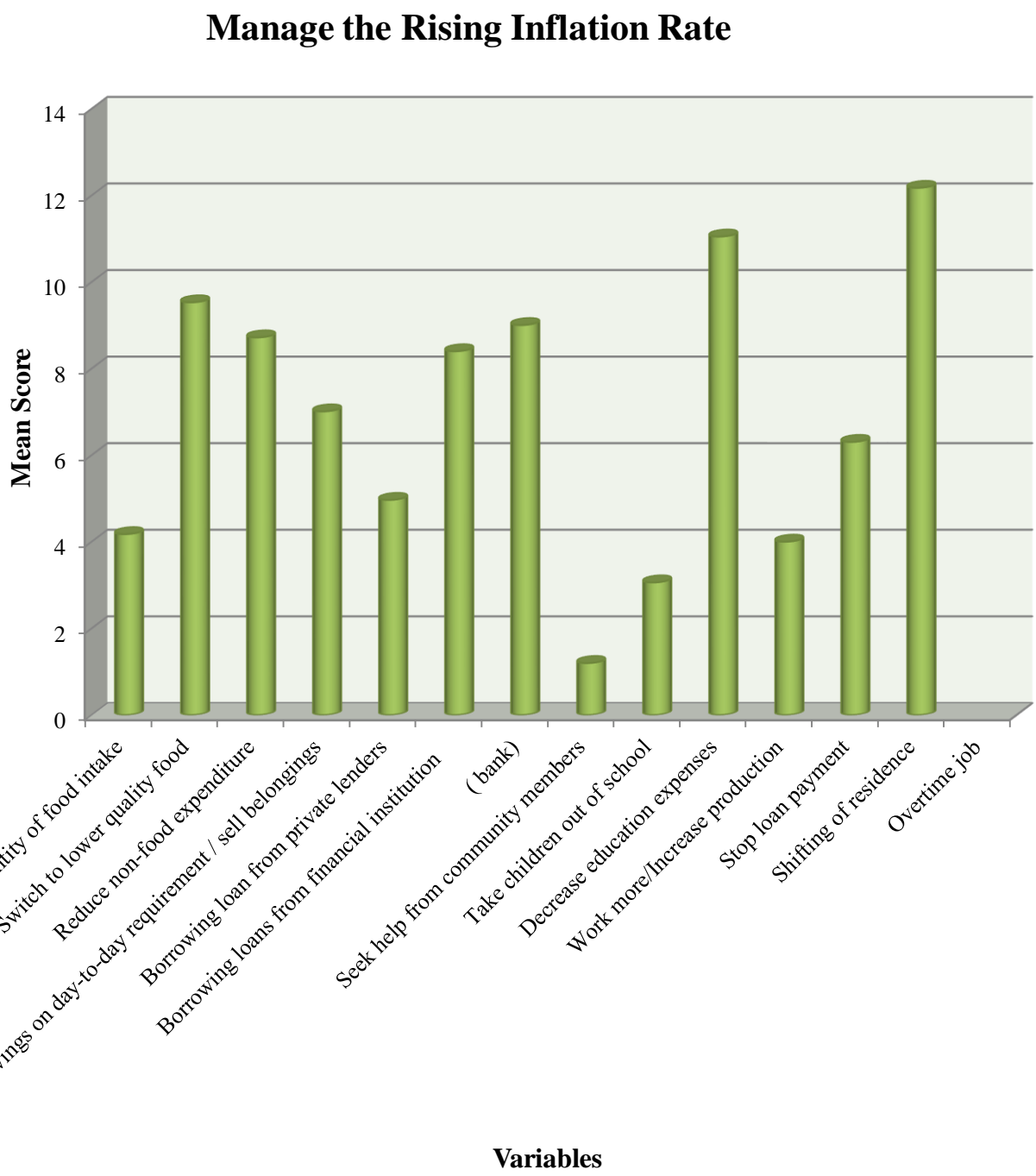
Source: Primary data

Interpretation:

From the above table (1.23) shows the manage the rising inflation rate are ranked of the view of respondent are overtime job (2435), Work more/Increase production (2210), Switch to lower quality food (1906), Seek help from community members (1801), Reduce non-food expenditure (1744), Borrowing loans from financial institution (bank) (1680), Spend savings on day-to-day requirement / sell belongings (1402), shifting of residence (1261), Borrowing loan from private lenders (993), Reduce quantity of food intake (835), stop loan payment (800), decrease education expenses (612), take children out of school (240).

Hence it is ranked that the maximum manage the rising inflation rate are overtime job (2435) and minimum manage the rising

inflation rate are take children out of school (240).



IV. Conclusion:

The study has examined that the major impact of inflation on household is due to no increment in salary or wages for the employees to meet their purchasing power. Then the households are trying to meet their needs by working overtimes in the area where they employed and also in part-time jobs available. Thus inflation plays a vital role in the society as a whole, because the employer has to spend on employees wages. This in turn increases the purchasing power of employees as a whole the sales of the employer also grow. Inflation arises due to imbalance between production and supply of goods and services.

Reference:

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