

A STUDY TO EVALUATE INFLATION AND PRICE RISE: EFFECT ON COMMON MAN

Veena Yesikar¹, Rajendra Kumar Mahore², Sanjay Dixit³, Geeta Shivram⁴, Sachin Parmar⁵, Chakresh Jain⁶

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ABSTRACT: INTRODUCTION: Inflation is defined as a sustained increase in the general level of prices for goods and services. It is measured as an annual percentage increase. As inflation rises, every rupee you own buys a smaller percentage of a good or service. Inflation for the first hits the common man because inflation indicates hike in the price of general commodities what a common man have to use in his day-to-day life. **AIMS & OBJECTIVE:** To get an overview of the effect of inflation on general population and to measure the impact of inflation on general population in terms of their use of public transport, restaurants and multiplex cinema. **METHODOLOGY:** A cross-sectional observational study was carried out over 200 randomly selected people of different localities of Indore for duration of four months. Inclusion criteria- People more than 20 years of age. People less than 20 years of age and those not willing to take part in study were excluded from this study. Study was carried out using a pre-tested questionnaire, which included demographic questions and question related to use of public transport, going to Cineplex, use of restaurants and purchase of foreign products. The data was analyzed using appropriate statistical software. **CONCLUSION:** Based on this study over a sample of 200 people residing in different Localities of Indore, we reach to the conclusion that effect of Price inflation highly Restrict the Public in terms of utilizing their basic needs and day to day activities like Use of Public transport, Eating out at restaurants, Movie going habits, Purchase of food and daily use items, Restricted Purchase of Quality products, Impact on electricity bill, house rent, and telephone bills, Medical expenses etc.

KEYWORDS: Inflation, Common man, Prices, Hike, Basic needs.

INTRODUCTION: Inflation is defined as a sustained increase in the general level of prices for goods and services. It is measured as an annual percentage increase.¹ As inflation rises, every rupee you own buys a smaller percentage of a good or service.² Though the disease (inflation) can be caught by any individual, but the most affected one is the common man, a category which on one hand includes people below the poverty line and on the other the middle-class society.³

Most frequently, the term "Inflation" refers to a rise in a broad price index representing the overall price level for goods and services in the economy.⁴ The Consumer Price Index (CPI), the Personal Consumption Expenditures Price Index (PCEPI) and the GDP deflator are some examples of broad price indices.⁵ However, "inflation" may also be used to describe a rising price level within a narrower set of assets, goods or services within the economy, such as commodities (including food, fuel, metals), tangible assets (such as real estate), financial assets (such as stocks, bonds), services (such as entertainment and health care), or labour.⁶ The Reuters-CRB Index (CCI), the Producer Price Index, and Employment Cost Index (ECI) are examples of narrow price indices used to measure price inflation in particular sectors of the economy.⁵

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India Inflation Rate: The inflation rate in India was recorded at 7 percent in October of 2013.⁷ Inflation Rate in India is reported by the Ministry of Commerce and Industry, India. From 1969 until 2013, India Inflation Rate averaged 7.7 Percent reaching an all-time high of 34.7 Percent in September of 1974 and a record low of -11.3 Percent in May of 1976. In India, the wholesale price index (WPI) is the main measure of inflation.⁸ The WPI measures the price of a representative basket of wholesale goods. In India, wholesale price index is divided into three groups: Primary Articles (20.1 percent of total weight), Fuel and Power (14.9 percent) and Manufactured Products (65 percent). Food Articles from the Primary Articles Group account for 14.3 percent of the total weight. The most important components of the Manufactured Products Group are Chemicals and Chemical products (12 percent of the total weight); Basic Metals, Alloys and Metal Products (10.8 percent); Machinery and Machine Tools (8.9 percent); Textiles (7.3 percent) and Transport, Equipment and Parts (5.2 percent).⁹

Here are some examples to show how inflation is affecting our day to day life:

Purchasing power of the rupee falls - a Rs. 50 note, which you could use to buy a kilogram of rice, will now fetch only half a kilogram. Commodity wholesaler dealers, such as rice dealers at mandis, may try and hoard essential commodities like food grains on hopes of reaping profits when prices increase further on dwindling supplies.¹⁰

Fixed income groups will be hit the hardest because their salaries will not be revised to include the cost of living even as prices of items soar. Household as well as national savings drop because there is less money to save now as people use a greater part of their disposable income to pay for daily-use commodities. Leading to financial insecurity. All these points made us think about the topic and lead us to take up this study.

MATERIALS & METHODS: A cross-sectional observational study was carried out over 200 randomly selected people of different localities of Indore for duration of four months. Inclusion criteria- People more than 20 years of age. People less than 20 years of age and those not willing to take part in study are excluded from this study.

Study was carried out using a pre-tested questionnaire, which included demographic questions and question related to use of public transport, going to Cineplex, use of restaurants and purchase of foreign products. The data was analyzed using appropriate statistical software.

RESULTS: Use of Public transport- 53.70% people did not use their own vehicle because of its in-affordability. This means that inflation has made maintaining personal vehicle costlier and inclined people towards using public transport. Eating out at restaurants- 55.41% people said that price of food is a major consideration before going to a restaurant. This shows that inflation has led people to give importance to price of food over type of cuisine, newness and specific menu item. Movie going habits- 77.92% people said that price of ticket influences their decision to go to movie on a particular day. This shows that price of ticket is the dominating factor in people's decision to go to a movie. Purchase of food and daily use items- 53.50% people sometimes felt the need to switch over to lower quality food items due to high prices. This shows that inflation has made people to give a high priority to price of food items rather than their quality. Purchase of foreign products- 58% people know that buying of foreign products will hurt our country's economy; still people are inclined towards buying foreign products. This tendency is a contributing factor in price rise. Impact on electricity bill, house

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rent, and telephone bill- 74.39% people felt that they are unable to afford their bills due to inflation and are compensating by reducing their expenditure in other products. Medical expenses- 68% people preferred private health services, 39.50% people had changed their preference of medical services from Private to Government (due to price inflation) since last 2 year.

DISCUSSION: Nearly 72% of lower middle class families, covered in the ASSOCHAM survey,¹¹ said they have been forced to squeeze their budgets for fruits, vegetables, milk, because of consistent high retail prices, while according to our research project, 67.50% people say that their food budget has increased due to price rise. So our findings are in accordance to ASSOCHAM survey.

A Nielsen Company survey on inflation assesses the impact of inflation on the middle class globally.¹² 85% of those polled said rising costs affected their choice of grocery products and many said it affects spending on activities such as dining out, buying clothes, snacking, entertainment and holidaying. Our survey reveals that 77.92% people say that price of ticket influences their decision to go to movie on a particular day. Also, 55.41% people think that price of food plays a role in their decision to go to a restaurant. So the findings of our survey are consistent with the Nielson Company survey.

The ASSOCHAM survey found that low-income groups are increasingly cutting back on the nutrient-rich snacks because they can no longer afford them, adds the survey. Our survey shows that 69% people sometimes look for cheap substitutes if price of food is high, 15% always look for cheap substitute. Our survey simulates the findings of ASSOCHAM survey and is consistent with its finding.

Increase in fuel price will also increase in food price.¹³ This will have a more severe impact on poor people because poor households spend more than half of their income on food and only a tenth on fuel. It is a chain reaction once started will affect all. Increase in petrol price will increase the transportation cost, increase in transportation cost will increase in price of goods, and this increase in price of goods would gradually force the people to loosen their pockets even more, and so on like this, the chain will further propagate. These ups and downs push more people into poverty and leading to a more pathetic situation of those already poor. This has obviously sent shock waves to the common man who is trying hard to make both ends meet. Common people if doing business shall also pass the burden to customers and chain reactions. The community that suffers the most is the common people or "aam aadmi". The results of present study also simulate the same impacts of price inflation.

CONCLUSION: Based on our research's observation and results, which was done on a sample of 200 people residing in different localities of Indore, we reach to various conclusion that price inflation deteriorate the budget of common man on various aspects like Purchase of food and daily use items, Impact on electricity bill, house rent, and telephone bill, Use of Public transport, Eating out at restaurants, Movie going/Entertainment habits, Purchase of foreign products and Medical expenses.

Inflation plays major role, to weaken the economy. Mainly inflation can be seen in food articles, which impact on weaker sections of the people in the nation. Government and policy makers of the economy should think more about, how to reduce inflation. High inflation can cause the population's confidence in their own currency and economy to decline, and it can be less appealing for foreign investors to invest in the country concerned. High inflation therefore often has a harmful effect on economic growth. If inflation gets too high, a country's central bank will often intervene by raising its interest rates and thus discourage the creation of money. Food is universal need for people.

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If inflation is more in food articles, it will harm to the country people. Inflation should not be there in food articles because food is essential need for all categories of the people. If Per capita income of the people is less, it is very difficult to survive with high inflation in the country.

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Table 1: Showing Impact of Price Inflation on Food Items

Time since started to think about the mentioned change in life related to purchasing of food and daily use items			Feeling the need to switch over to low quality food items due to higher prices		
Response item	Frequency(n)	Percent	Response	Frequency	Percent
Last 6 months	32	16.00%	Yes, always	26	13.00%
Last 1 year	38	19.00%	Yes, sometimes	107	53.50%
Last 1 ^{1/2} years	52	26.00%	No	67	33.50%
Last 2 years	78	39.00%	Total	200	100.00%
Total	200	100.00%			
Impact of price rise on food budget			Extent of effect of price rise of different items (during months of November 2012)		
Response	Frequency	Percent	Response	Frequency	Percent
Increased	135	67.50%	Wheat	17	8.50%
Decreased	40	20.00%	Onion	82	41.00%
Remain same	25	12.50%	Rice	16	8.00%
Total	200	100.00%	Meat	22	11.00%
			Dairy products	12	6.00%
			Fruits and vegetables	51	25.50%
			Total	200	100.00%

Table 2: Showing Impact of Price Inflation on Transportation

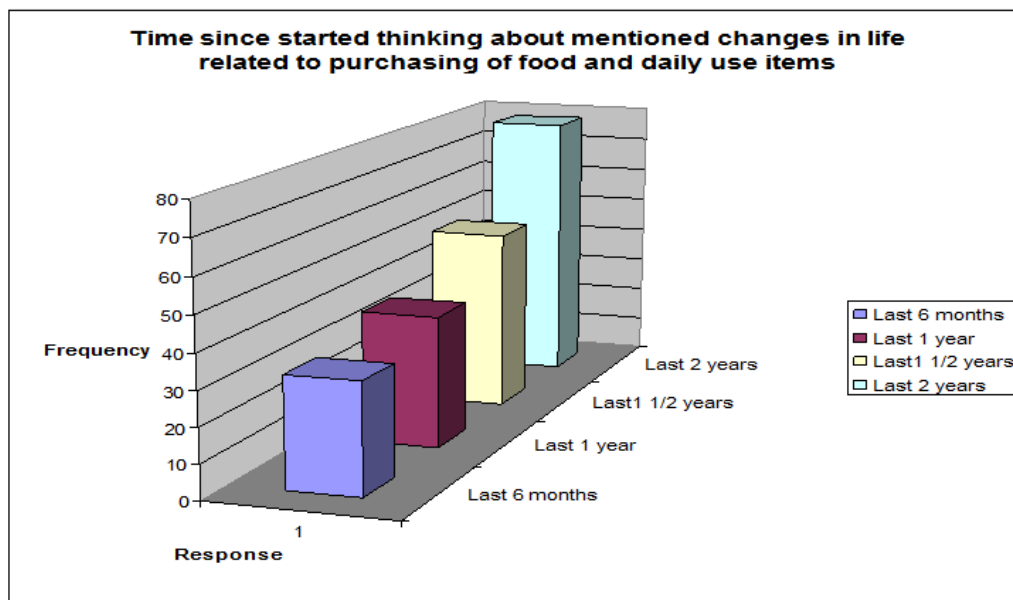
Factors responsible for selecting carpooling option			Reason for using public transport		
Response	Frequency(n)	Percent	Response	Frequency(n)	Percent
Health problems	32	16.00%	Traffic safety	14	25.93%
Financial problems	88	44.00%	Reduces pollution	5	9.26%
Personal problems	58	29.00%	Affordability	29	53.70%
Others	22	11.00%	Unable to drive	6	11.11%
Total	200	100.00%	Total	54	100.00%
Using carpool to save fuel expenses			Affect of fuel price on decision to use public transportation		
Response	Frequency(n)	Percent	Response	Frequency(n)	Percent
Yes	71	70.30%	Yes	65	64.36%
No	30	29.70%	No	36	35.64%
Total	101	100.00%	Total	101	100.00%

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Impact of inflation on your electricity bill, house rent and telephone bill		
Response	Frequency (n)	Percent
They have decreased	40	20.00%
They have increased	155	77.50%
Remained same	5	2.50%
Total	200	100.00%

Table 3: Indicating responses for impact of inflation on electricity bill, house rent and telephone bill

Figure 1: Indicating responses for time since when, people have started to think about the mentioned change in life related to purchase of food and daily use items.



AUTHORS:

1. Veena Yesikar
2. Rajendra Kumar Mahore
3. Sanjay Dixit
4. Geeta Shivram
5. Sachin Parmar
6. Chakresh Jain

PARTICULARS OF CONTRIBUTORS:

1. Assistant Professor, Department of Community Medicine, MGM Medical College, Indore.
2. Resident, Department of Community Medicine, MGM Medical College, Indore.
3. Professor & HOD, Department of Community Medicine, MGM Medical College, Indore.

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4. Demonstrator, Department of Community Medicine, MGM Medical College, Indore.
5. Resident, Department of Community Medicine, MGM Medical College, Indore.
6. Resident, Department of Community Medicine, MGM Medical College, Indore.

NAME ADDRESS EMAIL ID OF THE CORRESPONDING AUTHOR:

Dr. Rajendra Kumar Mahore,
Department of Community Medicine,
MGM Medical College,
Indore, Madhya Pradesh.
E-mail: drrajendrakumarmahore@gmail.com

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