HOW DOES INFLATION AFFECT CONSUMERS? WHEN THE PRICES OF CONSUMER GOODS IN THE MARKET INCREASE, IT IS THAT POINT IN A CONSUMER’S LIFE WHEN THEY REALIZE THAT INFLATION HAS HIT THE ECONOMY. THIS POINT MAKES THEM THINK PHILOSOPHICALLY THAT WITH THE RISE IN PRICES OF GOODS, THERE SHOULD BE AN EQUAL RISE IN THEIR SALARIES, WAGES OR INCOME, TO BALANCE OUT THE EQUATION. WELL TO THINK LIKE THIS MAY BE SATISFYING BUT THIS DOES NOT HAPPEN IN REAL WORLD. WHAT HAPPENS IS THAT THE PRICES OF GOODS AND SERVICES GO HIGH BUT A CONSUMER’S MONTHLY OR YEARLY INCOME REMAINS THE SAME. THIS CAUSES THE BUYING POWER OF MONEY TO REDUCE. THE BUYING POWER OF MONEY DECREASES AND THE PRICES OF GOODS INCREASE IN THE MARKET, WHICH IS ALL DUE TO INFLATION. WHAT IS INFLATION? IN ECONOMICS, THE RATE AT WHICH THE OVERALL LEVEL OF PRICES FOR GOODS AND SERVICES IS INCREASING RESULTING IN THE BUYING POWER OF MONEY TO DECREASE IS KNOWN AS INFLATION. DEFLATION IS THE OPPOSITE OF INFLATION WHERE THE PRICES OF GOODS DECREASE RESULTING THE IN BUYING POWER OF MONEY TO INCREASE. BOTH INFLATION AND DEFLATION ARE CLOSELY LINKED TOGETHER AND HAVE AN AFFECT ON THE CONSUMER. INFLATION CAN BECOME VERY TRICKY. THIS IS BECAUSE THE PRICES OF BASIC NECESSITIES OR THE PRICES OF GOOD YOU GENERALLY NEED INCREASE AT A VERY SLOW PACE MAKING IT UNNOTICEABLE. ON THE OTHER HAND, HYPERINFLATION IS A TERM USED WHEN PRICES OF GOODS INCREASE TO VERY HIGH LEVELS MAKING IT NOTICEABLE AND DIRECTLY AFFECTING THE CONSUMER’S COST OF LIVING. HOW TO MEASURE INFLATION? THE CONSUMER PRICE INDEX (CPI) IS COMMONLY USED TO MEASURE PRICE INFLATION. THE SURVEYS OF THE WEIGHTED AVERAGE OF RELATIVELY FIXED SET OF GOODS AND SERVICES, SUCH AS FOOD, TRANSPORTATION, AND EDUCAT MEDICAL CARE IS KNOWN AS CONSUMER PRICE INDEX. THE CALCULATION OF CPI DETERMINES THE RATE OF INFLATION. THE CPI TAKES A FIXED SET OF GOODS AND EXAMINES THE CHANGES IN PRICE FROM YEAR TO YEAR. THE INCREASE IN PRICES INDICATES THAT THERE IS PRICE INFLATION. THEN THERE IS THE EMPLOYMENT COST INDEX, WHICH IS USED TO MEASURE WAGE INFLATION. THIS SHOWS HOW THE FLUCTUATION IN THE COST OF LABOR OVER A PERIOD OF TIME. THE DIFFERENCE BETWEEN INFLATION AND COST OF LIVING AS DISCUSSED EARLIER, WE NOW KNOW WHAT INFLATION IS AND HOW IT IS MEASURED. COST OF LIVING AND INFLATION ARE TOTALLY DIFFERENT FROM ONE ANOTHER BUT PEOPLE THINK OF BOTH AS SYNONYMOUS TO EACH OTHER. COST OF LIVING IS SOMETHING TO WORRY ABOUT MORE. THE MONEY NEEDED TO ACHIEVE A STANDARD OF LIVING BY FULFILLING BASIC EXPENSES SUCH AS FOOD, HOUSING, HEALTH CARE AND TAXES IS KNOWN AS THE COST OF LIVING. COST OF LIVING HELPS DIFFERENTIATE BETWEEN THE EXPENSES OF BASIC NEEDS IN ONE CITY TO THE OTHER. CAUSES OF INFLATION WHEN THERE IS A FAST RISE IN WAGES, THE COST OF PRODUCTION INCR PRODUCTION CAUSES THE PRICES OF FINISHED GOODS TO RICE. THE BEST EXAMPLE IS THE RISE IN PRICES OF OIL. RISE IN THE PRICES OF OIL DIRECTLY AFFECTS THE ECONOMY. MAJORITY OF PRODUCTION PROCESS USE OIL AS A PRIMARY RAW MATERIAL, HENCE, WHEN THE OIL PRICES ARE INCREASED, COST OF PRODUCTION RISES RESULTING IN THE INCREASE OF PRICES OF GOODS. THIS CAUSES THE GENERAL RISE IN PRICES OF GOODS IN THE MARKET AND IS KNOWN AS COST-PUSH INFLATION. THEN THERE IS DEMAND-PULL INFLATION. DEMAND-PULL INFLATION IS CAUSED WHEN THE INCREASED DEMAND FOR A CERTAIN GOOD IS NOT IMMEDIATELY MET. THERE CANNOT BE A RISE IN SUPPLY TO MEET THE RISE OF DEMAND RESULTING IN THE  
EQUILIBRIUM TO BREAK. A GOOD EXAMPLE FOR THIS IS THE DEMAND FOR WHEAT-BASED GOODS THAT ARE USUALLY THE BASIC NEED OF A CONSUMER. WHEN THE DEMAND OF WHEAT BASED GOODS INCREASE, THE SUPPLIER OR PRODUCER IS UNABLE TO MEET THE DEMAND IMMEDIATELY. THIS RESULTS AS AN INCREASE IN PRICES OF WHEAT-BASED PRODUCTS TILL THE TIME THE DEMAND IS MET. DEMAND-PULL INFLATION AFFECTS THE ECONOMY AS A WHOLE. WHEN THE ECONOMY IS AFFECTED BY THE COST-PUSH AND DEMAND-PULL INFLATION, COST OF LIVING IS AFFECTED DIRECTLY. CONSUMER PURCHASING POWER IS DAMAGED. INCOME REMAINS THE SAME BUT PRICES RISE RESULTING IN CHAOS. INFLATION ALSO CAUSES FALL IN INCOME AS THE COST OF PRODUCTION INCREASES, MANY COMPANIES REDUCE THE WAGES TO MEET THE COST OF PRODUCTIONS. CONSUMERS ARE AFFECTED IN EVERY WAY. ON THE OTHER HAND, WHEN PEOPLE DEMAND AN INCREASE IN THEIR WAGES AND PAYS, THE UNIT COST PER LABOR INCREASES RESULTING IN THE DECREASE OF BUSINESS PROFITS. HOW DOES INFLATION AFFECT CONSUMERS? THERE ARE MANY WAYS INFLATION AFFECTS THE CONSUMER. SOME OF THEM ARE AS FOLLOWS:DECREASE IN PURCHASING POWERDAMAGES ENVESTMENTSREDUCED SAVINGSAFFECT ON DEBT DECREASE IN PURCHASING POWER COST-PUSH INFLATION CAUSES THE PRICES OF GOODS AND SERVICES TO BECOME HIGHER THAN NORMAL. THIS INCREASE CAUSES THE PURCHASING POWER OF MONEY TO DECREASE, HENCE AFFECTING THE CONSUMERS DIRECTLY WITH A FIXED YEARLY INCOME ARE AFFECTED MORE TO THOSE WHO ARE RUNNING A BUSINESS AND DO NOT LIVE ON A FIXED INCOME. BUSINESS ORIENTED PEOPLE KNOW HOW TO ADJUST THEIR COSTS TO CO-OP UP WITH INFLATION. BUT FIXED INCOME CONSUMERS CANNOT DO THAT. TO MAKE THIS SIMPLE, IF THE RATE OF INFLATION IS 5%, IT MEANS THAT PRICES HAVE INCREASED BY 5% OVER THE YEAR, SO TO MAINTAIN A BALANCED FINANCIAL LIFE, YOU NEED A 5% INCREASE IN YOUR YEARLY INCOME. THE HARD PART IS TO INCREASE YOUR YEARLY INCOME. INFLATION DAMAGES YOUR LIFESTYLE IF IT INCREASES FOR A LONG TIME PERIOD.DAMAGES INVESTMENTSCONSUMERS MAKE AN INVESTMENT WITH A HOPE THAT THE ASSET OR SHARE WILL GENERATE AN INCOME FOR THEM. CONSUMERS MAKE INVESTMENTS ONLY TO HAVE MORE THAN ONE INCOME STREAMS. ALSO, RISE IN PRICES OF GOODS OR THE OVERALL COST OF LIVING FORCES THE CONSUMERS TO INVEST IN BUSINESS, STOCHS ETC. INVESTMENTS CAN ALSO BE IN FORM OF BUYING REAL ESTATE, WHICH WILL INCREASE ITS VALUE OVER TIME. BUT INFLATION CRASHES THE DREAMS OF INVESTORS AND DESTABILIZES THEIR FINANCIAL SYSTEM. FOR EXAMPLE, IF YOU HAVE INVESTED MONEY AT AN INTEREST RATE OF 3% AND THERE IS A RISE IN INFLATION BY THE SAME RATE OF 3%, YOU WILL BE EARNING NOTHING OUT OF YOUR INVESTMENT. BUT IF THE INFLATION RISES EVEN MORE THAN 3%, YOUR INVESTMENT WILL RESULT IN LOSS. THIS IS HOW INFLATION EFFECTS THE INVESTMENT OF A CONSUMER.REDUCED SAVINGS MAKING SAVINGS FROM A FIXED INCOME IS ONLY POSSIBLE WHEN YOU HAVE ENOUGH DISPOS THROUGH OUT THE MONTH. INFLATION AFFECTS A CONSUMER’S SAVING. WITH THE INCREASE IN PRICES OF GOODS AND SERVICES, A CONSUMER’S INCOME IS MAY BE USED UP COMPLETELY AND QUICKLY, LEAVING NOTHING. IN SOME CASES, A CONSUMER MIGHT HAVE TO WITHDRAW FROM THEIR PREVIOUSLY MADE SAVINGS TO FULFIL THEIR NEEDS. INFLATION DEMOTIVATES THE CONSUMER TO SAVE MONEY AS THE PRICES ARE HIGH AND THERE IS NOTHING MUCH TO SAVE. SUCH LONG TERM PERIODS  
MAY LEAD YOU TO A LOWER STANDARD OF LIVING AND BY THE TIME YOU RETIRE, YOUR BANK ACCOUNT MAY END UP HAVING INSUFFICIENT SAVINGS.AFFECT ON DEBTS WHEN A CONSUMER WANTS TO MAKE A LARGE PURCHASE BUT DOES NOT HAVE THE REQUIRED FUNDS FOR IT, THEY BORROW MONEY FROM SOMEONE. THAT SOMEONE CAN BE A BANK OFFERING LOANS OR AN INDIVIDUAL OFFERING DEBTS ON INTEREST. THE AMOUNT OF MONEY BORROWED FROM SOMEONE IS DEBT. INFLATION AFFECTS BOTH THE DEBTOR AND THE CREDITOR. DURING THE PERIOD OF PRICE INFLATION, THE CREDITOR IS AFFECTED THE MOST. SINCE THE PRICES INCREASES, THE VALUE OF THE AMOUNT GIVEN BY THE CREDITOR TO THE DEBTOR WILL DECREASE. THIS HELPS THE  
DEBTOR AS HE IS PAYING BACK LESS AMOUNT OF MONEY AND THE CREDITOR IS GETTING LESS AMOUNT OF MONEY. FOR EXAMPLE, IF SOMEONE BORROWS $1,000 IN 2016 AND INFLATION HITS IN THE NEXT COUPLE OF YEARS MAKING THE VALUE OF THAT $1,000 TO DETERIORATE TO $000 DUE TO INCREASE IN PRICES. BUT IN THE CASE OF WAGE INFLATION, BOTH THE CREDITOR AND DEBTOR ARE BENEFITED. THE CREDITOR HAS POWER TO PAY BACK QUICKLY DUE TO AN INCREASE IN INCOME. ON THE OTHER HAND, THE DEBTOR WILL BE RECEIVING MONEY BACK QUICKER. SO IN SOME TIMES INFLATION DOES HELP.IN GENERAL, CONSUMERS ARE AFFECTED BY THE INFLATION IN MANY WAYS. BUT THE IMPORTANT PART IS HOW CAN THE CONSUMERS MAINTAIN THEIR  
STANDARD OF LIVING DURING THE PERIODS OF INFLATION. SOMETIMES INFLATION IS GOOD FOR THE ECONOMY AS INFLATION AND DEFLATION HELP REGULATE PRICES OF GENERAL PRODUCTS. WHEN THE PRICES INCREASE BY TOO MUCH, AGGREGATE DEMAND FALLS RESULTING IN THE PRICES TO FALL AS WELL, THIS IS WHERE DEFLATION HAS TAKEN PLACE. WHEN THE PRICES DECREASE, THE DEMAND IS INCREASED. SUCH DEMANDS ARE HARD FOR THE SUPPLIER TO MEET, SO THERE IS AN INCREASE IN THE PRICES RESULTING IN INFLATION. FOR A STRONG ECONOMY, THIS CYCLE SHOULD CONTINUE TO KEEP THE DEMAND AND SUPPLY STEADY, INCREASE THE PRODUCTION AND MAKE THINGS EASIER FOR DEBTORS. EACH YEAR WE SEE THAT THE PRICES OF THE GOODS AND SERVICES GET HIGHER. THE PRICE OF PETROL IN 2008 WAS AROUND RS80. IN 2013, AFTER AROUND 5 YEARS, THE PRICE HAD RISEN TO RS105. THIS ANNUAL (OR MONTHLY DEPENDING ON HOW WE MEASURE IT) INCREASE IS KNOWN AS INFLATION. TO UNDERSTAND THE EFFECTS OF INFLATION ON CONSUMER, WE MUST FIRST GET INTO WHAT INFLATION REALLY IS. INFLATION IS THE SUSTAINED INCREASE IN THE PRICES OF GOODS AND SERVICES IN AN ECONOMY OVER A PERIOD OF TIME. IT COULD BE A INCREMENT MEASURED MONTHLY OR YEARLY. IT USUALLY HAS A VERY ADVERSE EFFECT ON THE ECONOMY OF A PERSON AND A COUNTRY. THERE ARE 5 TYPES OF INFLATION, HYPERINFLATION, ASSET INFLATION, CREEPING INFLATION, WALKING INFLATION AND GALLOPING INFLATION. HYPERINFLATION IS THE WORST TYPE. ITS WHEN PRICES RISE MORE THAN 50% A MONTH. ITS VERY RARE BUT IT HAS HAPPENED. SINCE MOST OF THE ECONOMIES ARE NOT FULLY BACHED BY EITHER GOLD OR SILVER, THE ECONOMIES ARE THEN RUN ON FIAT MONEY, WHICH MAKES IT EASIER TO MANIPULATE INFLATION DUE TO SEVERAL REASONS MOTIVATED EITHER POLITICALLY OR ELSE..ONE SUCH EXAMPLE IN HISTORY COULD BE IN THE FORM OF INDONESIA OR GERMANY. IN 1920S, GERMANY WAS STRUCK BY HYPERINFLATION. SINCE GERMANY HAD LOST THE WORLD WAR 1, THE VICTORIOUS NATIONS ASKED IT FOR COMPENSATION OF THE LOSSES THEY FACED DURING THE WAR AT THE HANDS OF THE GERMAN. THE GERMANS COULDN’T PAY THEM BACK IN GERMAN CURRENCY BECAUSE OF ITS SUSPECT VALUE DUE TO PREVIOUS MASS BORROWING SO THE GERMANS MASS PRINTED THE THEIR PAPER NOTES WHICH LED TO A DEVALUATION OF THEIR CURRENCY WHICH IN TURN LED TO HYPERINFLATION IN THEIR COUNTRY. ASSET INFLATION IS THE MILDEST AND OCCURS VERY OFTEN. ONE SUCH EXAMPLE COULD BE THAT THE PRICES OF VEGETABLES AND FRUITS GO UP EVERY YEAR. THIS IS DUE TO THE ANTICIPATION OF RISING DEMAND. CREEPING INFLATION IS WHEN PRICES RISE BY A FIXED AMOUNT ANNUALLY. ITS SOMEWHAT COMMON. HOWEVER, THE LAST TIME IT OCCURRED WAS IN 2007. WALKING INFLATION IS WHEN PRICES GO UP 3-10% ANNUALLY. ANY PERCENTAGE BETWEEN THE GIVEN NUMBER COULD DO AS LONG AS IT FORCES PEOPLE TO START STOCK SAVING IN THE ANTICIPATION OF FURTHER INCREASE IN PRICES. THIS LEADS TO A HIGH DEMAND IN STOCK BUT A SHORTAGE IN SUPPLY WHICH INCREASES THE PRICE FURTHER FOR MORE PROFIT, GALLOPING INFLATION IS WHEN PRICES INCREASE BY 10% OR MORE ANNUALLY. THIS IS DEVASTATING FOR AN ECONOMY AS IT DRIVES OUT FOREIGN INVESTORS. ONE REASON FOR IT IS THE FLUCTUATIONS IN THE VALUE OF THE CURRENCY.INFLATION IS MEASURED ON A CONSUMER PRICE INDEX (CPI). THIS INDEX NOTES THE INCREMENT OR A DECREMENT OF PRICES OVER A SHORT OR LONG PERIOD OF TIME. CPI DOESN’T MEASURE EVERYTHING IN THE SAME BRACKET. FOR EXAMPLE, WHILE THE PRICES OF VEGETABLES OR FRUITS MAY BE THE SAME OR FACE A SMALL INCREMENT OVER TIME, THE PRICES OF FUEL REMAIN ERRATIC. THEY SOMETIMES FACE AN INCREMENT OR A DECREMENT DEPENDING ON THE GEO-POLITICAL SCENARIOS OF THE SAID TIME. UNCONTROLLED INFLATION ALMOST ALWAYS HAS AN ADVERSE EFFECT ON THE ECONOMY OF A PERSON. A PERSON WHO HAS A SALARY OF RS100,000 COULD GET HIS HOUSE IN ORDER BY SPENDING AROUND RS75,000 ON NECESSITIES OF LIFE AND STILL SAVE AROUND RS25,000. BUT AS INFLATION HITS THE MARKET, FOR EXAMPLE, THE PRICE OF PETROL PER LITRE INCREASES, NOW, THE PERSON HAS TO PAY MORE TO GET THE SAID LITRE OF PETROL, BUT THE OTHER BASIC ACCOMMODATES OF LIFE GET EXPENSIVE AS WELL. TRANSPORTATION COSTS GET HIGHER, WHICH LEADS TO FOOD GETTING MORE EXPENSIVE BECAUSE THE ITS MORE EXPENSIVE NOW TO TRANSPORT THE VEGETABLES AND THE FRUITS FROM THEIR FARMS TO THE SHOPS AND STORES. THIS CHAIN OF EVENTS CONTINUES AND BASICALLY CREATES A HUGE BURDEN ON THE ECONOMY OF A CONSUMER WHO COULD AFFORD TO BE LAVISH BEFORE BUT NOW HAS TO BE CAREFUL IN ORDER TO SAVE FOR THE VERY XBOX HE WAS SAVING THAT’S COINCIDENTALLY ALSO HAS GOTTEN A BIT MORE EXPENSIVE.NOW, THE EVENT MENTIONED ABOUE IS A NO BIGGIE FOR A CONSUMER BELONGING TO A HIGHER CLASS BUT INFLATION BECOMES A HUGE HEADACHE TO MIDDLE AND LOWER MIDDLE CLASS FAMILIES WHO JUST BARELY MAKE DO WITH THE INCOME THEY GET. SO TO PUT IN GENERAL TERMS, INFLATION BASICALLY RAISES THE COST OF LIVING. WHAT IT ALSO DOES IS INCREASE THE POVERTY IN A COUNTRY. NOW THERE ARE MORE CHILDREN WHO GO TO SLEEP HUNGRY BECAUSE THEIR FATHER WHO WAS BARELY ABLE TO BRING BREAD AND BUTTER HOME AFTER A DAY’S HARD EARNED PAY COULD NOT AFFORD TO DO SO ANYMORE. IN ONE WAY OR ANOTHER, INFLATION IS A FACT OF LIFE. IT AFFECTS US ALL, THE CONSUMERS AND INVESTORS BOTH, AS BOTH ARE EFFECTED BY THE RISING PRICES OF RAW MATERIALS. EFFECTS OF INFLATION ON DIFFERENT SECTS OF SOCIETY ARE GIVEN BELOW. DEBTORS AND CREDITORSWITH RISING INFLATION, DEBTORS HAVE A MAJOR GAIN WHILE CREDITORS FACE LOSE LOSSES. MONEY FACS DEVALUATION DUE TO RISING INFLATION AND THUS THE DEBTORS EASILY RETURN THE MONEY WHICH IS NOW HAVING LESS VALUE IN TERMS OF GOOD. THE REASON BEING THAT THE VALUE IS NOW LESS THAN THE TIME THEY BORROWED IT. SIMILARLY, DUE TO DEVALUATION OF MONEY, CREDITORS HAVE THE SAME AMOUNT OF MONEY HAVING LACE FACE VALUE. THIS IS A MAJOR LOSS.

SALARIED PEOPLE

WORKERS SUCH AS TEACHERS, CLERHS AND OTHER WHITE COLLAR LOSE WHEN THERE IS INFLATION. THE REASON FOR IT BEING THAT THE SALARIES ARE SLOW TO ADJUST TO INFLATION AND THUS THEY FACE TEMPORARY PROBLEMS.

FIXED INCOME PEOPLE

PEOPLE WHO DEPEND UPON PENSIONS, INSURANCES AND RENTS FACE PROBLEMS TOO. THEY GET FIXED AMOUNT OF PENSIONS AND INSURANCES THAT ARE NOT ADJUSTED FOR INFLATION. THE LOWER INCOME CLASS FACE SEVER PROBLEMS DUE TO THIS.

BUSINESSMEN

BUSINESSMEN OF ALL TYPES GAIN DURING INFLATION. AS PRICES RISE, THE FACE VALUE OF THEIR INVESTMENT ALSO INCREASES EVEN THOUGH THEY HAD INVESTED LITTLE THAT WHAT THE CURRENT VALUE ALREADY IS. NOW THE INVERTORS CAN SELL THEIR PRODUCTS OR BUSINESSES ON A PROFIT. ANOTHER REASON FOR PROFIT CAN BE THAT THE RAW MATERIAL ARE GENERALLY SLOW TO ADJUST THEIR PRICES TO INFLATION. THIS MEANS THE BUSINESSMEN ARE ABLE TO BUY RAW MATERIALS CHEAPLY AND THUS ARE ABLE TO SELL OFF THEIR GOODS ON PROFITS.

AGRICULTURIST

THERE ARE THREE TYPES OF AGRICULTURIST, LANDLORDS, PEASANTS AND LANDLESS WORKERS. INFLATIONS HITS LANDLORDS AND LANDLESS WORKERS EXTREMELY HARD. ONLY THE PEASANTS GAIN A FEW AS THEY ARE ABLE TO SELL OFF THEIR STUFF FOR BETTER VALUE NOW. THIS IS BECAUSE, FOR THEM, THE COST OF SELLING IS LESS THAN