

**MASTER THESIS**

**2022/2023**

**STUDENT NAME:**

Maxence d’Aversa

**RESEARCH TOPIC**

- **TUTOR’S NAME**

Pablo Winant

**CONFIDENTIAL**  NO

The distribution of this document is strictly reserved to ESCP Europe.

**Abstract**

xxx

**Keywords :**

Xxx

**Résumé**

xxx

**Mots-clés :**

[I. Introduction 5](#_Toc134461169)

[II. Literature review 6](#_Toc134461170)

[III. Methodology 7](#_Toc134461171)

[I.1 Inflation Measurement 7](#_Toc134461172)

[I.2 Inflation Composition 7](#_Toc134461173)

[I.3 Household consumption and inequalities 7](#_Toc134461174)

[I.4 Impact of the energy tariff shield 8](#_Toc134461175)

[I.5 Estimating an Econometric Model to Identify the Determinants of Inflation Gap between Quintiles at the European Level 9](#_Toc134461176)

[IV. Results 10](#_Toc134461177)

[V. Recommendations and conclusions 11](#_Toc134461178)

[Affidavit 12](#_Toc134461179)

[VI. Bibliography 13](#_Toc134461180)

[VII. Appendices 14](#_Toc134461181)

**List of** **abbreviations**

**Aucune entrée de table d'illustration n'a été trouvée.**

# Introduction

Since 2021, the world has experienced significant changes in the economic landscape, with a notable resurgence of inflation.

After decades of relative price stability, this increase in inflation has emerged as a new challenge across economic, political, and social domains.

In the European Union, consumer prices have risen by over 16% during the 2021-2022 period, as reported by Eurostat.

This surge in inflation seems to be primarily driven by skyrocketing energy prices, which have increased by 57.6% during the same timeframe, while escalating food prices, with a 19.8% increase, have further exacerbated the situation in the majority of member states.

What has caused this extraordinary and unexpected inflation, which, although in varying degrees, is affecting the entire world?

According to Christine Lagarde, whom I had the opportunity to interview at the Banque de France in September alongside the governor, "the inflationary crisis is due to a rebound in post-Covid demand, to which supply has not been able to adapt.” Additionally, the war in Ukraine has further complicated matters by introducing instability in the prices of gas and food.

However, it is worth noting that Ms. Lagarde, as the President of the European Central Bank (ECB), did not mention the potential impact of the exceptionally generous monetary policy implemented by the ECB over the past decade, which has been further reinforced in response to the Covid-19 pandemic.

No matter the reasons, this inflationary wave has diminished the purchasing power of numerous households. It may result in financial strain, poverty, and social exclusion.

However, it is crucial to recognize that not everyone experiences the impacts of inflation in the same manner. Inequalities exist in the way inflation affects different segments of the population, and it is these disparities that we will explore in this thesis.

The issues of poverty, inequality, and their impacts on the standard of living are, of course, crucial areas of focus for national statistical agencies, as well as independent associations and think tanks, such as the Observatoire de la pauvreté in France.

These organizations strive to provide valuable insights and data on the state of socio-economic disparities, enabling policymakers and researchers to better understand and address these challenges. However, there is often a time lag in the availability of the most recent data, which can hinder timely analysis and response to emerging trends. For instance, these organizations have only recently published figures for 2020, leaving a gap in the current understanding of the situation.

This time lag serves as a key motivation for undertaking this thesis at this moment. Our aim is to leverage the available data to identify emerging trends and provide a more up-to-date assessment of the relationship between inflation and socio-economic inequalities.

By conducting a thorough analysis of the existing data and incorporating recent developments, this study seeks to fill the knowledge gap and offer a clearer picture of the potential impacts of the ongoing inflationary wave on different segments of society. Ultimately, this timely research will contribute to the ongoing discourse on the effects of inflation on poverty and inequality, and provide valuable insights for anticipating and addressing the challenges that may lie ahead.

By investigating the relationship between inflation and socio-economic inequalities, with a particular focus on the French context and a comparison to other European countries, we aim to shed light on the ways in which the inflationary wave has affected various segments of society.

To comprehensively address this topic, we will begin by examining the evolution of the price index in France to pinpoint when the inflationary wave precisely started, using data from the French National Institute of Statistics and Economic Studies (Insee) compiled by Eurostat. We will then decompose this inflation into four components: energy, food, industrial goods, and services, according to Eurostat's special aggregates. The aim is to identify which components have driven the strong inflation in France and how these components differentially impact various socio-economic groups.

Our study will also investigate the consumption patterns of households in France and their exposure to the effects of inflation. By examining household consumption structures and their relation to inflation, we will be able to identify the factors that contribute to the unequal experiences of inflation across different socio-economic strata.

Furthermore, we will explore European-level statistics to understand how France compares to other European countries in terms of inflation and its effects on socio-economic inequalities. This comparative analysis will provide valuable insights into the broader European context and help us understand the potential drivers behind the observed disparities in the experience of inflation.

Finally, we will estimate an econometric model to identify the significant variables affecting the inflation gap between the first and fifth quintiles at the European level. This model will consider a range of socio-economic indicators, such as the Gini index, GDP, the proportion of energy inflation to services inflation, imports, poverty, and other relevant variables, to provide a robust analysis of the factors contributing to inflation inequalities in Europe.

By focusing on the relationship between inflation and socio-economic inequalities, this thesis seeks to contribute to the broader discourse on the consequences of the inflationary wave and its potential to create or exacerbate existing disparities within society.

# Literature review

# Methodology

In this study, we will examine the inequalities during the inflation wave in France since March 2021, with a comparison to other European countries. Our methodology will encompass the following steps:

## I.1 Inflation Measurement

The first step in the analysis will be to measure inflation in France and identify the start of the inflationary wave. To accomplish this, we will obtain data from the French statistical agency, INSEE, compiled by Eurostat. Specifically, we will use the consumer price index, updated monthly, covering the time period from 1998 to the present.

## I.2 Inflation Composition

The next step in the analysis will be to decompose the inflation into four components: energy, food, industrial goods, and services, using special aggregates from Eurostat. The objective will be to determine which components drove the high inflation in France.

## I.3 Household consumption and inequalities

We will then use the "Family Budget" survey conducted by Insee in 2017, which polled 12,000 households in France based on socio-demographic characteristics to understand their consumption patterns.

We will reconstruct the consumption structure of households by deciles, decomposing it according to the same four special aggregates from Eurostat. We will also analyze the consumption structure of households by category of residential municipality. The goal is to determine whether there are socio-demographic characteristics that explain differences in household consumption structures.

Next, we will cross-reference household consumption structures with inflation statistics to examine inflation inequalities according to various criteria: deciles of standard of living, category of residential municipality, socio-professional category, household type category, occupancy status of the main residence, and age.

We will then explore European-level statistics using another survey on household consumption structures by quintiles of standard of living compiled by Eurostat. We will analyze the gap between the first and fifth quintiles of European countries to see how France compares at the European level.

## I.4 Impact of the energy tariff shield

We will estimate the impact of the energy tariff shield on the different components of inflation in France using data calculated by Insee. Then, we will examine how the energy price cap has potentially rebalanced inflation inequalities across the different categories mentioned earlier.

## I.5 Estimating an Econometric Model to Identify the Determinants of Inflation Gap between Quintiles at the European Level

Finally, using a linear regression model with lag, we will attempt to build a model to identify the significant variables in the inflation gap between the first and fifth quintiles at the European level. We will compile data for each country, including Gini index, GDP, the proportion of energy inflation to services inflation, imports, poverty, and other relevant variables.

By utilizing this econometric methodology, we aim to provide a more rigorous and academically robust analysis of the inflation disparities observed across European countries, taking into account various socio-economic indicators and their potential influence on the observed outcomes. This will ultimately enhance the validity and credibility of our findings, as well as offer valuable insights into the underlying mechanisms driving inflation inequalities in Europe.

By following this comprehensive methodology, we will provide a thorough analysis of the inflation wave in France and its implications on socio-demographic inequalities, while also offering a broader European perspective.

# Results

# Recommendations and conclusions

# Affidavit

**ESCP Europe**

I, the undersigned, do hereby state that I have not plagiarised the paper enclosed and that I am the only author of all sentences within this text. Any sentence included which was written by another author was placed within quotation marks, with explicit indication of its source. I am aware that by contravening the stated ESCP Europe rules on plagiarism, I break the recognised academic principles and I expose myself to sanctions upon which the disciplinary committee will decide.

I also confirm this work has not previously been submitted during studies prior to ESCP Europe. If this work has been written during studies conducted in parallel to my time at ESCP Europe, I must state it.

I accept full responsibility for the content of this paper.

Maxence d’Aversa

# Bibliography

# Appendices