Is Spending Power Increasing Day by Day?

Submitted by:  
Your Name

Department of Economics / Commerce / Management

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Institution Name

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# Abstract

Spending power, or purchasing power, is a key indicator of economic well-being and reflects an individual’s or household’s ability to acquire goods and services. With rapid economic growth, technological innovations, and changing income patterns, the question arises: Is spending power truly increasing day by day? This research examines trends in spending power by analyzing factors such as income growth, inflation, consumer behavior, and credit-based spending. Secondary data from economic reports, inflation indices, and consumer spending surveys have been reviewed. The findings suggest that while nominal income has been rising globally, real spending power is affected by inflation, cost of living, and growing dependence on credit. The paper concludes with recommendations for improving real spending power through better wage policies, inflation control, and financial literacy.

# 1. Introduction

## 1.1 Background

Spending power, commonly referred to as purchasing power, represents the quantity of goods and services that a unit of currency or an individual’s income can buy. It is an essential indicator of the economic health of a nation and the standard of living of its citizens.  
  
Over the past few decades, technological development, globalization, and increased employment opportunities have contributed to rising incomes in many countries. However, the real question remains whether people can buy more with their earnings today than they could previously. The rising cost of living, inflation, and the growing use of credit-based consumption complicate this assessment.

## 1.2 Problem Statement

While global and national reports often show an increase in average income levels, real spending power may not have increased proportionally due to high inflation, currency devaluation, and increasing expenses in essential sectors such as housing, education, and healthcare.

## 1.3 Research Questions

1. Has real spending power increased in proportion to income growth?  
2. To what extent does inflation impact daily purchasing power?  
3. Is the rise in spending power sustainable, or is it fueled by credit-based consumption?

## 1.4 Objectives of the Study

- To analyze trends in income growth versus inflation.  
- To identify the key factors influencing spending power.  
- To provide recommendations for sustaining and increasing real spending power.

## 1.5 Significance of the Study

This study is important for:  
- Policy makers, to draft economic policies that ensure real wage growth.  
- Businesses, to forecast consumer demand accurately.  
- Individuals, to understand how economic changes affect their personal finances.

# 2. Literature Review

## 2.1 Theoretical Background

1. Keynesian Consumption Theory – Keynesian economics suggests that higher income levels lead to higher consumption, increasing economic activity. However, this assumes inflation remains stable.  
  
2. Purchasing Power Parity (PPP) – PPP compares different currencies based on the quantity of goods and services they can buy. It provides an insight into global purchasing power changes.  
  
3. Real vs. Nominal Income Theory – Nominal income is the actual amount of money earned, whereas real income adjusts for inflation. Real income provides a true picture of spending power.

## 2.2 Previous Studies

A World Bank report (2023) highlighted that global per capita income has risen, but real wage growth in developing countries remains stagnant due to high inflation.  
  
McKinsey’s consumer research (2022) indicated that credit card usage has surged by 45% in the last five years, suggesting higher apparent spending power, though much of it is debt-driven.  
  
Research by OECD (2021) noted that luxury and discretionary spending increased among higher-income groups, while middle and lower-income groups struggle with rising essential costs.

## 2.3 Research Gap

Most available studies focus on annual or long-term purchasing power trends. Limited research exists on short-term (daily or monthly) variations and behavioral shifts due to digital transactions and instant credit facilities.

# 3. Methodology

## 3.1 Research Design

The study follows a quantitative and descriptive research design.

## 3.2 Data Collection

Secondary Data Sources:  
- Government reports on income and inflation.  
- Consumer Price Index (CPI) data for the last 5–10 years.  
- Household expenditure surveys from economic agencies.

## 3.3 Sampling and Period

Data is collected for a five-year period (2019–2024) focusing on urban and rural households.

## 3.4 Data Analysis Techniques

Trend Analysis – Comparing income growth vs. inflation rates.  
Real Income Calculation – Adjusting nominal income for inflation.  
Comparative Analysis – Between different income groups (low, middle, and high-income).

# 4. Findings and Discussion

## 4.1 Income Trends

Data suggests that nominal income has increased consistently across most economies. For instance, average urban household income rose by 8% annually over the last five years.

## 4.2 Impact of Inflation

Despite rising nominal income, inflation averaged 6–7% annually, reducing real purchasing power. Essential goods such as food, fuel, and healthcare experienced higher price increases compared to luxury items.

## 4.3 Credit-Based Consumption

The surge in digital payments and credit card usage has led to higher apparent spending power, but this increase is debt-driven rather than based on real income growth.

## 4.4 Sector-Wise Spending Power

- Urban High-Income Groups: Spending power has increased, especially for luxury goods and travel.  
- Middle and Low-Income Groups: Spending power on essentials has stagnated or declined due to rising living costs.  
- Rural Households: Limited increase in real income due to dependency on agriculture and seasonal employment.

## 4.5 Behavioral Changes

Consumers tend to spend more impulsively due to instant digital payment options. Psychological factors, such as the ease of online shopping, also create a perception of higher spending power.

# 5. Conclusion and Recommendations

## 5.1 Conclusion

The study concludes that while nominal income is rising, real spending power has not consistently increased day by day due to inflation and rising living costs. The increased use of credit creates an illusion of higher spending power, but this is not sustainable in the long term. The increase in spending power is also unevenly distributed.

## 5.2 Recommendations

1. Governments: Control inflation through effective monetary policies and introduce policies for real wage growth.  
2. Businesses: Adjust pricing strategies to match consumer real income levels and offer affordable product lines.  
3. Individuals: Improve financial literacy to manage debt responsibly and focus on savings rather than credit-based consumption.

## 5.3 Scope for Future Research

Future studies can focus on daily or monthly real-time changes in spending behavior, especially considering AI-driven digital financial tools and cryptocurrencies.

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