

## Impact of Price Hike on the Standard of Living of Middle Income People: A Study on Sylhet City, Bangladesh

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### ABSTRACT:

The purpose of this research is to identify the impact of price hike on the living standard of middle income people. The researchers tried to identify the alternatives of middle class people in face of price hike or inflation. This descriptive analytical research is conducted by random probability sampling. The data were collected by a well designed questionnaire that was tested by experts in this field to ensure the validity of the research. The responses from 98 households are processed and analyzed by frequency distribution, cross tabulation and Chi-square tests. The impact of price hike (minor, medium and major) is tested in respect of compensate by more income, change in food habits, change in accommodation and education. The result showed that there is a small reaction in the minor inflation but in medium and major inflation most of the respondents seeks alternatives to face the crisis. A significant difference in the reaction is found in most of the cases with the levels of price hikes. But the middle income people have the tendency to maintain the status quo in their life style and standard of living. The management may generate new products or services for the middle class people by keeping the mindset of them in the time of price hike. The authority should consider compensating the middle class in various ways to restore their consumption level to continue the economic activities of a country.

**Keywords:** *Price hike, Middle income class, Living standard*

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### INTRODUCTION

The increase of price of essentials rapidly and continuously is called inflation. The increase of prices of products and services is a regular and inevitable event of every economy whether it is developed or developing. The supply of money increases the demands of the products and services that result in increases of prices of products and services. It influences every country, negatively as well as positively. But in the most of the cases inflation is an important factor leading to social and economic instability and disorder. Bangladesh is a small nation with a

huge population. In spite of its utmost efforts and growth prospects Bangladesh is yet to reach to the stream of the middle income countries and to improve effectively the quality of life of its people because of its age old poverty, structural weakness of its economy and lack of productive capacities for development. Inflation can be caused by the sudden disruption in supply of products by flood, draught, shortage of power, raw materials etc. It can also be caused by increases of aggregate demand than supply. Impact of global price hike is one of the most

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important causes of price hikes in Bangladesh.

Inflation means a continued increase in the aggregate or general price level in an economy. Inflation means there is an increase in the cost of living. On the other hand a price hike is the increase of any single product or service price. A 10% price hike means the cost of that particular item has increased by 10%. When most prices grow, there is inflation, provided the other prices don't drop too heavily. If inflation is not compensated by nominal increases of income, people become poorer. Low, medium and high rate of price hike attract the daily attention of households and decision maker differently. The income of people is another determining factor in reaction of households in different levels of price hikes.

Standard of living is maintained by certain level of wealth, comfort, material goods and necessities available to a certain socioeconomic class in a certain geographic area. The socioeconomic classes are determined mainly by the income levels of population.

Middle income people stands in the middle of high income who are enjoying high standard of living and the low income people who are maintaining very low standard of living. They have the financial security to make both ends meet and have a little margin of safety. They have some economic security with health insurance and a retirement plan, or some savings in the bank to meet any emergency, send their kids to school, or even provide small loan to a family member who wants to start up a business. Middle class is essential to maintain the demand of the products. The reducing capacity of middle class in inflation results in reduction of demand in the market that ultimately reduce the production of firms and become the cause of job loss that brings disaster in the economy.

Different types of inflations can have widely different determinants, effects and remedies. There is no strictly binding definition of ranges of intensity in price increase. The hyperinflation is the extreme level with increases of prices of commodities by three digit percentage points. The extremely high inflation is identified by increase of prices by 50%-100%. The high inflation leads to 30%-50% of increase in price level of essentials. The moderate inflation is mentioned by increase in price by 5%-30% and

the low inflation is caused by 1%-5% of price increases.

Uncompensated inflation reduces incomes, thus consumption and savings, both in aggregate and with particular reference to certain social groups (e.g. Middle Income People, as surveyed here). Inflation hits the poor harder than the rich because of high expenditure- income ratio, low purchase due to price rise, essentials becoming unaffordable, deeper dissatisfaction of needs due to inability in purchasing, weaker bargaining power in compensating the price hike. The suffering of middle class is almost similar as the poor.

Day to day increase in prices of commodities snatch money from savings of consumers and uncertainty of prices, both food and non-food items, generate tension among middle income people and search the alternatives toward earn more and more. Middle class people in Sylhet, like other part of Bangladesh, is struggling to find the appropriate combination of expenditures (i.e. food, education, clothing, transport, health, recreation etc.) to maintain their existing living standard provided that their income is almost fixed and inflation rate is going up. The study is to identify the alternatives selected by the middle class in different levels of price hike in their essentials like food, accommodation, education etc.

2. Literature Review: Around 80-90% people of Bangladesh are the people of limited income. The price spiraling of essential commodities is one of the main problems of these people. The price of raw materials, transportation cost, fuel cost, processing cost, manipulations are the main causes of price hike. The authority becomes failure in most of the time in controlling the price that increases the suffering of customers (Hasan, 2005). The natural disasters that disrupt the production of agricultural products creates crisis in the supply of food items. The failures of Govt. in compensating the shortage for inefficiency or worldwide paucity accelerate the price hike and peoples' sufferings (Rahman and Ahmed, 2008). Other important cause of price hike and inflation is the haphazard money supply in the economy (Hussain, 2008). The middle income people referred by middle class supposed to have high skill/education, medium business or are retired professions. They are

non-manual labor, salaried and high skilled self employed in the occupation structure (Siddiqui et al., 1990). Standard of living indicates the consumption of necessities, comforts and luxuries by particular class of people. Standard of living depends upon income and the middle class people have a mediocre income level with a small savings after expenses for consumptions. Around 80% of their income is consumed by food (50%), clothing (18%) and lodging (12%). Inflation refers to rising price levels of consumed products and services (Lokanathan, 1994). It is found that inflation has both positive and negative impact on the economy (Mehrra and Moghadasfer, 2012). The effect of price hike converting the lower income people to marginal and the middle income people to the lower income people. People with a decent salary of one time may become poorer with the spiraling of price. People have to cut many items from their list by terming these necessary items as luxury at the time if inflation (Rahman, 2008). People of middle class have to manage their survival by using different techniques in face of price hikes. The minimization in consumption is one of the techniques to survive. But it brings stagnation in economy. Famine, hidden hunger comes due to the inability of purchasing the necessary items in face of price spiraling (Barua, 2009). In Bangladesh mainly three important reasons for unabated inflations are identified as; a. excess money supply, b. the structural issues of the market- cartel and exploitable behavior of actors and c. external shocks (Murshed, 2007).

#### **Objective of the Study**

##### **Broad Objective**

To measure the impact of price hike on the standard of living of middle income people in the Sylhet City

##### **Specific Objectives**

- a. To investigate response of middle income people to price hike in Sylhet City in respect of taking alternatives to raise income to compensate the price hike.
- b. To identify the response of households in their purchase habit of food items in the time of price hike.
- c. To identify the alternatives taken by the middle income people in respect of accommodation in the time of price hike.

- d. To identify the alternatives taken by the middle income people in respect of education in the time of price hike

#### **RESEARCH METHOD**

**Research Design:** This study is a descriptive analytical research done on the basis of thinking of the respondents regarding the steps to be taken in the face of price hike of essentials. The research is designed to carry out by questionnaire method to give the respondents sufficient time of thinking before answer the questions. The questionnaire contained dichotomous, close-ended and open-ended questions. The validity of the questionnaire was tested by senior researchers of that field. The Cronbach Alpha of 0.699 ensure about the reliability of the research.

##### **Sampling Design**

The stratified probability research is adopted to get the opinion of people of different professions regarding their course of action in time of inflation. The middle income people are selected according to the perception of people regarding their position in the society according to the income category rather than actual range of income.

##### **Data Collection**

The middle class families of Sylhet division (Bangladesh) have been considering as the sampling frame. This frame was based on the claim of people rather than original income range because the researchers' viewpoint on the expenses habit of people. They (researcher) opined that expenditure pattern depends on the perception of people about their income status the data were collected from the respondents of 18 years age and above regardless of sex and of the middle income family. The researchers have tried to collect the data from 150 respondents and were able to collect from 100. But two of the interview was can cancelled due to inconsistency in the answers.

##### **Analysis Procedure**

The information was processed through Microsoft Excel 07 and SPSS 19 to get the outputs in the form of frequency distribution, cross-tabulation and Chi-Square tests.

### Data Analysis and Findings of the Study

Goal of this research is to find the impact of the price to the living standard of the middle income people. To achieve this goal we have maintained demographic variation and aimed middle/lower middle income/fixed income household. 90% of the total observed person (OP) we have surveyed are their household head and 86% is married. So, in the time of hike he/she has to take decision how he/she manage his/her family. Among the OP 25% is business man and 36% is skilled professional. 18% is below 30 years old, 58% is 30-45 years old and rest of them is above 45 years old (table 1). We have selected those household who do not have that much space to accommodate additional burden of price hike to maintain the same level of standard of living. Most of them are fixed income people with limited scope of alternative source of income. To evaluate the impact of inflation on their standard of living we have articulate the following criteria:

- e. Income Techniques.
- f. Food quality and quantity
- g. Accommodation quality and space quantity
- h. Kids' education

Our study shows that 36 of the 98 respondents have to react at major price hike to maintain their existing life style by utilizing their idle human resources or physical resources (50%) to earn more money to cover the expenditure, 27.8% shift their job to more incoming job and 22.2% search to do overtime to manage their expenditure. The response rate is gradually reduced to only one person out of 98 at the level of 20% price hike due to great saving per unit of time. So saving secures individuals at the hard time. During the major hike extra income sourcing decision varied across the job variation. Household (more than 50%) may occupy their family members for extra income, sometime, by withdrawing them from college (table 2). They may go for sublet of their existing accommodation.

Middle Class people can accommodate the smaller price hike. During the major price hike they either go for overtime or switch to better job. It is found that up to 40% of price raise,

only 5 of 98 respondents try to increase their income by doing overtime at their offices. Then there are more reactions found from the respondents at higher levels of price raise. At above 40% of price raise, 36 out of 98 respondents mentioned different activities they would do to face the overall price raise (table 2). Among the different activities, there are utilizing idle resources to increase the income of consumers. Searching to increase the income by doing overtime is other frequently used technique. Most harder alternative is switch to another job- it is also used to maintain the family expenditures in face of trouble creating price spiraling,

The Chi- square test verifies that ( $p$  value in  $\chi^2 < 0.05$ ) with the variation in price hike, the behavior of households significantly changed with the level of price hike to maintain the life style and standards.

#### Food

We found food expense pretty inelastic to price hike. During the major price hike, 19 of the respondents out of 36 (52%) try to maintain same quantity and quality of food by searching other income or spending less in other sector (table 3). This is because food is our essential part of our life. Moreover our target household normally stays in saturation point in case of food that is why there is no enough space left to curtail in quantity or quality of food.

The response rate of households changes with the higher price hikes. From only one household to 36 of total 98 are responded with the less than 20% of price hike to above 80% levels (table 3). The behavior of households at different levels is found different at various levels. The variation at quantity and quality levels and search other income sources are the options at different levels. But in all types of behavior it is found that all the households have given sufficient priorities to the food items at the crisis time.

The Chi-Square test verifies that the behavior and rate of responses is significantly differ at different level of households in respect of different levels of price hikes of food items as  $p$  value in  $\chi^2 < 0.05$  (0.000).

**Table 1: Profile of the respondents**

Item	Description	Number	Percent	Item	Description	Number	Percent
<b>Household Head</b>	No	9	9.2	<b>Occupation</b>	Business	24	24.5
	Yes	89	90.8		SkilledProfessional	35	35.7
	Total	98	100.0		Job Holders	39	39.8
			Total		98	100.0	
<b>Age</b>	below 30 Y	18	18.4	<b>MaritalStatus</b>	Unmarried	14	14.3
	30-45years	57	58.2		Married	84	85.7
	Above 45 Y	23	23.5		Total	98	100.0
	Total	98	100.0				

Source: SPSS outputs from the data in Field Survey held on Feb. 2015 to June 2015

**Table 2: Alternatives of raising income in the face of price hikes of commodities**

Price Hike of Essentials	Alternatives in Price Hike			Total
	Increase by overtime	Shift to other job	Utilize idle Resources	
<b>Up to 20%</b>	1 100.0%	0 0.0%	0 0.0%	1 100.0%
<b>20-40%</b>	4 100.0%	0 0.0%	0 0.0%	4 100.0%
<b>40%-60%</b>	11 33.3%	12 36.4%	10 30.3%	33 100.0%
<b>60%-80%</b>	9 37.5%	6 25.0%	9 37.5%	24 100.0%
<b>Above 80%</b>	8 22.2%	10 27.8%	18 50.0%	36 100.0%
<b>Total</b>	33 33.7%	28 28.6%	37 37.8%	98 100.0%

Source: SPSS outputs from the data in Field Survey held on Feb. 2015 to June 2015

**Table 3: Alternatives of food consume habits in the face of price hikes in food items**

Price Hike in Food Items	Alternatives				Total
	Lower quality in Same quantity	Smaller Quantity in same quality	Lower quality in smaller quantity	maintain quantity, quality and search other income	
<b>Up to 20%</b>	0 0.0%	1 100.0%	0 0.0%	0 0.0%	1 100.0%
<b>20-40%</b>	0 0.0%	4 100.0%	0 0.0%	0 0.0%	4 100.0%
<b>40%-60%</b>	1 3.0%	29 87.9%	0 0.0%	3 9.1%	33 100.0%
<b>60%-80%</b>	2 8.3%	12 50.0%	4 16.7%	6 25.0%	24 100.0%
<b>Above 80%</b>	0 0.0%	13 36.1%	4 11.1%	19 52.8%	36 100.0%
<b>Total</b>	3 3.1%	59 60.2%	8 8.2%	28 28.6%	98 100.0%

Source: SPSS outputs from the data in Field Survey held on Feb. 2015 to June 2015

#### Accommodation:

Most of people (Avg. 95%) maintain their quality/size of their house as they are not shifting their house in minor/ medium hike. Possible factors will be the shifting cost, utilities, transportation, furniture accommodation, life style etc. Again apartment owner tendency to increase rent every time with the change of boarder, which also have a significant effect that made them to stay at a same place. But in major hike majority (90%) of the people have to compromise and shift into smaller place (table 4).

The major hike in home rent compels the boarders to shift their home to new available home with comparative low rent. Generally people have to select the smaller home with comparatively low quality because of hikes in rent. The reaction in major price hike is found from more respondents and smaller hikes results in small numbers of respondents' reactions by different ways. But the proportion of reacting respondents out of total number of reacting respondents in each category regarding price hikes indicates the reactions from almost similar proportion, so the Chi-Square test ( $\chi$ ) indicates no significant differences in different category of respondents ( $p=0.310>0.05$ ).

#### Education:

Good school means a lot to parents. The participants think that it plays a vital role for their children to develop and able to adapt in society in future. As obvious majority of them try to hold same school, either the hike may be major / minor/ medium. All they do is, make some adjustment with coaching and no coaching option. In the major price hike in educational cost, the middle income people tends to get their kids' education from the same school but there may be adjustment in the coaching. The Chi-Square test ( $\chi^2$ ) verifies that there is significant relationship in price rise in educational expenditure and behavioral change in educational activities in middle income households ( $p$  value=0.009).

#### DISCUSSION

The data were collected from the respondents of 18 years age and above as this research is to search the alternatives in different aspects in the

face of price hikes in different levels and the data is about the policy making of the households where the matured persons are involved. Most of respondents are head of the households and of different professions to justify the research (table 1). As the research are about the activities of middle income people in the face of different levels of price hikes and the respondents have a small savings after their necessary expenditure, so it is found that 95% of the respondents reacts in above 40% of price hikes in different essentials items (table 2, table 3, table 4 and table 5). That is they try to maintain their standard in below 40% of price hikes. Naturally, the highest portion of people (36%) reacts in highest level of price hike. Middle income people have tendency to maintain their present position in every situation. So they are found to utilize their idle resources to increase income to compensate the price hike of highest level (table 2). This tendency is found in major price hike in food item also. They search for more income to compensate the price hike to maintain the present level of quantity and quality of food items (table 3). In accommodation, they are not ready to sacrifice the quality of living place but try to manage by smaller space (table 4). The highest emphasize is given to the educational activities by the target population. They are found to not sacrifice the quality of education by changing the school but they try to manage the expenditure by manipulating in the additional educational service through coaching (table 5). The level of price hike is found to create significant difference in the activities of respondents in searching the income source that was tested by Chi-square tests. In food items price spiraling, the reaction of respondents in also found as significant. The similar finding was found in the case of price hikes in education but in accommodation, people tend to stay in the same place by sacrificing other things, so an insignificant difference was found in Chi-square test. In summary, it can be inferred that the middle income people are stubborn to maintain their standard of living by all means in the face of price spiraling of essential items. The reaction was found in highest levels of price hikes but the reactions, there is dominance of maintaining the present position in every case.

Table 4: Alternatives of accommodation in the face of price hikes of house rents

Price hike in accommodation	Alternatives				Total
	Lower quality in Same Space	Smaller Space in same quality	Lower quality in smaller Space	maintain quantity, quality and search other income	
Up to 20%	0 0.0%	1 100.0%	0 0.0%	0 0.0%	1 100.0%
20-40%	0 0.0%	4 100.0%	0 0.0%	0 0.0%	4 100.0%
40%-60%	1 3.0%	31 93.9%	0 0.0%	1 3.0%	33 100.0%
60%-80%	2 8.3%	18 75.0%	3 12.5%	1 4.2%	24 100.0%
Above 80%	0 0.0%	35 97.2%	0 0.0%	1 2.8%	36 100.0%
<b>Total</b>	<b>3</b> 3.1%	<b>89</b> 90.8%	<b>3</b> 3.1%	<b>3</b> 3.1%	<b>98</b> 100.0%

Source: SPSS outputs from the data in Field Survey held on Feb. 2015 to June 2015.

Table 5: Alternatives of educational activities in the face of price hikes in education in different levels

Price Hike in Education	Alternatives							Total
	No Change	Less expensive school in same Coaching	Less Coaching in same school	Same school & Coaching & Search Alternative	Same School with zero Coaching	Same Coaching in Zero Schooling	No answer	
Up to 20%	1 100.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	1 100.0%
20-40%	0 .0%	0 0.0%	1 25.0%	3 75.0%	0 0.0%	0 0.0%	0 0.0%	4 100.0%
40%-60%	8 24.2%	3 9.1%	11 33.3%	8 24.2%	3 9.1%	0 0.0%	0 0.0%	33 100.0%
60%-80%	6 25.0%	0 0.0%	4 16.7%	5 20.8%	6 25.0%	1 4.2%	2 8.3%	24 100.0%
Above 80%	2 5.6%	0 0.0%	12 33.3%	10 27.8%	12 33.3%	0 0.0%	0 0.0%	36 100.0%
<b>Total</b>	<b>17</b> 17.3%	<b>3</b> 3.1%	<b>28</b> 28.6%	<b>26</b> 26.5%	<b>21</b> 21.4%	<b>1</b> 1.0%	<b>2</b> 2.0%	<b>98</b> 100.0%

Source: SPSS outputs from the data in Field Survey held on Feb. 2015 to June 2015

## CONCLUSION

Inflation or increase in price level of essential products of households is occurred due to high fiscal deficits, poor monetary policy, unsustainable public borrowing, volatile exchange rates, demand push or supply push of products or services. There are many positive impact of inflation in the economy along with negative impact on standard of living of poor and middle class citizens. The middle income class people are most sufferer in the inflation as they are tends to maintain their social status and standard of living with their minimum savings. It is found that reaction from most of the respondents in the excessive increase in the prices brings pathetic measures over the target population that ultimately influences their time of price hike are not so visible in the time of

minor price hikes. But the respondents are found to search for different alternatives in medium to higher level of price hikes in food items, accommodation and educational expenditures. The reactions of the respondents are significantly different in the earning, food expenses and educational expenses. So the entrepreneurs and the authorities have to take necessary measures to minimize the impact of price hikes to facilitates to help the middle income people in maintaining their standards and life styles as that class is the energy suppliers in the economy. The stagnation of economy is inevitable if the middle class people are failed to afford their consumptions during inflation period.

**Managerial Implication:** Large consumer class is essential to accelerate the economic activities. Middle income people are the large consumer class in the economy. Management should consider the result of such research in pointing out the alternatives of middle class citizens in the face of different levels of price hikes to innovate new products or services to maintain the standard of living of that class consistently with their income level. The authority or management should also consider compensating that class in their income level to maintain their affordability to consume the products or services. Otherwise the overall demand of the products would fall and welcome a stagnation period in the economy.

**Limitation of the Study:** The sampling size and the area of research are not sufficient to portrait the overall activities of middle class people in the face of inflation. The people of low income group are also a great contributor in the economy. This research is failed to cover them.

**Further Research:** There are scope to do more research by increasing the size of sample and sampling frame to overall Bangladesh. The other important items of livelihood may be considered in further research. There are also scope to search the alternative course of actions of lower middle and poor income group in the economy to provide some imperatives to the management of enterprises and the policy makers.

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