

Research Paper

EFFECTS OF INFLATION ON HOUSEHOLD BUDGET

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ABSTRACT

The constant increase in the average cost of goods & services is known as Inflation. Inflation is measured in an annual percentage which shows the decreased rate of Dollar during current year as compared to the last year. There are two well known theories of Inflation.

Meaning & Definition of Inflation:-

1. Demand Pull Inflation
2. Cost Push Inflation.

Demand pull inflation creates when there is excess of money & lack of products & services to meet the demand of that money.

Cost push inflation creates when companies are unable to maintain their profit level due to increase costs. So they increase their prices & passed it to the consumers.

Inflation items:-

- 1) High inflation creates financial restrictions on household budgets.
- 2) Tax Free Accounts are priority among young savers.
- 3) According to new research from money supermarket.com brits are spending over quarter of their income on bills & one in five has no money for non essential spending.
- 4) CPI (Consumer Price Index) rises to 4.5%.
- 5) Savings bonds are launched for savings.

Inflation & Real Estate:-

We don't know exactly when the process of inflation starts, but only know that the prices are go up. What exactly happens when prices go up and when these prices increase, is a complicated process. The same thing is applicable for housing industry too. The prices of house will start to decrease when the spending capacity of consumers will get decrease.

It means when a common man does not afford to buy the needful things, the prices will get slow down.

Investors & Real Estate:-

As we studied earlier, the prices will go down when the spending capacity of consumer will get decrease. So as inflation increases the prices of real estate will starts to go down. If the investors have money to make investment for a year than buying, then it is a good time for investors as the prices of "Real Estates" are low.

Real Estate is the first and the most important product which helps for growing economy of a country.

Buying A House During Inflation:-

If a person knows a process of starting of inflation then it is the best one to buy a house. Inflation affects on cost

of living of people. So most of the time people will see to sell their home. They should sell their home at lower prices than its real worth during a period of inflation.

But as soon as the fewer homes put into the market, the competition will get increased among the buyers of home because of their decreased prices.

If there are not enough buyers to buy a home, if they cant afford to buy a home at reduced prices also then the Housing Market will slows down the prices of House at a quite little beat.

But one thing is important here that if you want to buy a House during inflationary period then you must have to put fixed rate mortgage at Housing Market to protect from higher rate of interests.

Rising Inflation Costs Indian House Holds:-

From all the above discussion we come to know that during the period of inflation the prices of various commodities as well as petroleum products will get increased. So collectively automatically it will affect on the house hold budgets.

Rising prizes of different commodities, food products, and petroleum products have burnt a hole in the pocket of Indian consumers during last three years.

Conclusion

The study is concludes that the maximum income of the common people is normally expended on the food products. The study shows growth of Private Consumption nearly 17 per cent per year from 14 per cent in the preceding 3 years mainly due to food inflation.

Price trends of commodities in Wholesale Price Index favor middle and high income classes, rather than poor Indian Households.

Higher food prices should be an incentive to enhance the production of food items. In addition to price signals, productivity improvement in food/agriculture would require better technology and improved investments in irrigation. So high food inflation is here to state the report by Chief Executive of CRISIL.

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