International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

The effect of inflation on an individual's spending behaviour

Pradip Singh

Kristu Jayanti College

ABSTRACT :

Inflation greatly impacts consumer expenditure behaviour by altering purchasing power, consumption patterns, and budgeting. The research examines the impact of inflation on personal expenditure behaviour at different income levels considering budget realignment, discretionary and necessary expenditure variation, and alteration in saving and investment behaviour.

The study utilises statistical inference on data from surveys to evaluate the influence of inflation on money-making decisions. Results show that inflation forces people, especially those in poorer segments, to cut back discretionary expenses, adjust savings behaviour, and seek out other channels for investment. The research also examines whether inflation has led to more attempts to seek other sources of revenue to deal with the rising costs.

The results contribute to the knowledge about inflation and economic effects on consumers and provide insights to individuals and researchers analysing financial behaviour.

Keywords: Inflation, Expenditure Habits, Purchasing Power, Consumption Patterns, Financial Planning, Investment Behaviour, Savings, Sources of Income

Introduction :

Inflation originally meant a rise in the general level of prices resulting from the difference between the money and the trade requirements. It is a basic economic force that has an effect on financial stability, the power of purchasing, and general economic prosperity. It exerts its effect on a person directly or indirectly and it impacts people differently depending on their spending patterns, income levels, and finance planning strategies. As a result of inflation, the price of goods and services goes up, causing people to realign their consumption habits thus reducing discretionary spending, boosting savings, or finding other sources of income.

This study explores how inflation affects an individual spending behaviour, examining their budget allocation, and investment pattern. It also focuses on whether an individual would change their financial habits based on their income level and how they will react regarding the rising costs in terms of spending, saving, and investing.

This study takes a data-driven approach to understanding how inflation shapes individual financial choices. It also focuses on different income levels, how certain income people react to the rise in the price of goods and commodities, and how they balance their essential and non-essential expenses. It also tries to understand whether individuals change their financial strategies in response to inflation and how those adjustments are based on their income. Through analysing the survey responses through statistical methods (spss), the study tries to understand how inflation influences an individual.

Literature Review :

Deaton (2005) examines how people manage their income between spending and saving over their lifetime. His research suggests that inflation reshapes long-term financial planning, making consumers prioritize essential needs over non-essential purchases. **Lakshmana Moorthy and Athinarayanan (2024)** examine the effect of inflation on expenditure among various income groups. They understood that individuals with lower incomes tend to reduce unnecessary spending, whereas those with higher incomes modify their investment plans to safeguard their wealth if any financial disaster happens. **Cieslak and Pflueger (2023)** explore how inflation affects investment behaviour, showing that during inflationary periods, people tend to shift their investments. They expose how inflation distorts risk perceptions, making people want to own safer assets such as gold, stocks, and property as protections against inflation. **Lieb and Schaffels (2022)** investigate how inflation expectations influence household consumption. They conclude that individuals in poorer financial situations cut back on spending more severely, supporting the notion that inflation affects lower-income families the most. **Storm (2022)** analyses inflationary patterns in crises such as the COVID-19 pandemic and geopolitical tensions. His research identifies how inflation exacerbates economic inequality, with developing economies and poor populations shouldering the cost increases. **Shiller (2019)** proposes that people's perceptions of inflation greatly influence consumption patterns. His work indicates that even unconfirmed fears of inflation can significantly impact individual spending and consumption behaviour. **Meganathan, Bhakta, and Priyadharshini (2013)** examine the influence of inflation on Indian consumers, especially when buying durable items and luxury products. They found through their research that when prices of goods and commodities increase individual tend to delay their discretionary purchases. **Mishkin (1986)** offers a detailed explanation of how central banks deal with inflation. His study focuses on the role of monetary policy in stabilizing prices and protecting personal finances from the effects of inflation. **Friedman (1957)** suggests that individuals make consumption decisions based on lifetime incomes rather than their immediate income. Inflation, nonetheless, interferes with this balance, compelling consumers to reconsider budgets and change expenditure patterns in view of economic insecurity.

Statement of the problem :

Inflation is a persistent economic issue that touches daily financial choices, from the cost of groceries to the long-term investments of an individual. As prices increase, individuals see their purchasing power diminish, making them reexamine their spending, savings, and investment habits. While there are lot of research done on the overall economic effect of inflation, less is known about how various income level groups adapt to the changes and their financial behaviour as a response.

For most, handling money in times of inflation is a tightrope act. Poorer households tend to be hit the hardest, reducing non-essential spending or tapping their savings to pay for increased expenses. Higher-income earners, on the other hand, might react by changing their investment plans or seeking alternative means of income.

This research seeks to fill this gap by investigating how inflation influences individual financial choices. It also investigates how individuals modify their budgets, shift spending between essentials and discretionary items, and modify saving and investment habits. By highlighting these financial changes, the study hopes to offer useful insights for policymakers, financial planners, and individuals seeking to better cope with inflation's changes.

Objective :

- To analyse how inflation affects individual spending behaviour across income levels
- To examine whether inflation has reduced savings ability and led to alternative financial strategies
- To investigate the relationship between inflation and spending behaviour
- To check whether individuals are seeking additional income sources due to the rising prices of goods
- To examine whether it has caused changes in the lifestyle choice of an individual

Scope of the study :

This research studies the impact of inflation on an individual's spending habits, mainly consumption, savings, and investment behaviour among various income groups. By analysing individuals from various income groups and economic backgrounds, it aims to understand how inflation affects them. Through survey answers and statistical interference, the research provides an understanding of how people adjust to inflation. Whether they reduce expenditure or spending on non-essential items? Whether they modify their investment pattern or behaviour? It also tries to understand whether inflation compels people to find a way to earn extra income to maintain their lifestyle as cost rises. Overall, the study tries to understand the behaviour of an individual during inflation.

Methodology :

Research Design

This study follows a quantitative research design to determine the impact of inflation on consumer spending behaviour. The method facilitates the objective analysis of how inflation is affecting decision-making in the finance sector. The descriptive research study design provides data in an orderly manner regarding consumption, saving, and investment expenditure influenced by inflation.

Data Collection Methods

Primary data were collected through a structured questionnaire-based survey. It was conducted to receive first-hand data responses from various groups. Secondary data were collected to understand inflation rate trends, economic reports, and research studies and to be referenced and to support primary data.

Sampling Technique

- **Sampling Method:** Simple random sampling was used to ensure that there was no biased representation of individuals from various income levels.
- **Sample Size**: A total of 100 respondents was sampled, considering time and the necessity of statistically significant analysis. Even though larger respondents would provide a wider understanding, the selected sample would still provide insights into the influence of inflation on consumption patterns among various income groups.
- **Target Populations**: Individuals from all age groups, income levels, and professions were covered to study the overall spending behaviour.
- **Period Of the Study:** The questionnaire was surveyed from 14th February to 24th February (10 days)

Data Analysis Method

- **Descriptive Statistics**: Applied to examine trends in spending, savings, and investment habits.
- **Chi-Square Test**: Tested how income levels and shifts in expenditure trends relate to each other
- **Correlation Analysis**: Measured the strength of the relationship between inflation and personal savings
- **Independent Samples T-Tes**t: Compared spending behaviour between groups affected vs not affected by inflation.
- **One-Way ANOVA**: Analysed variations in investment behaviour across different income groups.
- **Regression Analysis**: Assessed the influence of income, inflation's impact on savings, and alternative income-seeking behaviour on spending reductions.

Hypothesis

- H1: Inflation significantly affects an individual spending behaviour
- H2: Lower-income groups tend to reduce spending more than higher-income groups during inflation
- H3: Inflation negatively affects individual savings
- H4: Inflation-affected individuals seek additional income sources
- H5: Inflation directly or indirectly influences investment behaviour

Data Analysis and Findings Through Primary Data :

Table 1: Descriptive Statistics

The descriptive analysis provides insights into the general spending behaviour of individuals affected by inflation.

Variable	Mean	Std. Deviation	Min	Max
Monthly Personal Income (INR)	1.36	0.704	1	4
Inflation Impact on Spending (Scale 1-5)	3.45	0.833	1	5
Inflation Impact on Savings (Yes/No)	1.19	0.394	1	2
Investment in Assets (Yes/No)	1.50	0.503	1	2
Reduction in Dining Out (Yes/No)	1.26	0.441	1	2

Inflation significantly affects spending (Mean = 3.45 on a 5-point scale). 81% of respondents reported difficulty saving. 50% have started investing in assets like gold, stocks, and real estate. 74% have reduced dining out and ordering food due to inflation.

Table 2: Impact of Inflation on Spending Behaviour

Chi-square tests were used to determine if spending behaviour varied significantly across income groups.

Test Statistic	Value	df	p-Value	Conclusion
Pearson Chi-Square	10.484	3	0.015	Significant impact

As $p = 0.015$ (< 0.05), income significantly affects an individual's spending reduction reductions due to inflation. Lower-income respondents reduce non-essential spending more than higher-income individuals.

Table 3: Relationship Between Inflation and Savings

Pearson Correlation analysis was conducted to assess the relationship between inflation and personal savings.

Correlation Between	Coefficient (r)	p-Value	Conclusion
Inflation & Savings	0.235	0.019	Weak but significant

A positive correlation ($r = 0.235$, $p = 0.019$) shows that individuals who struggle to save tend to reduce spending on luxury or non-essential goods

Table 4: Investment Trends and Coping Strategies

Independent Sample T-Test was used to compare investment patterns between individuals who struggled to save and those who did not.

Test	t-Value	p-Value	Conclusion
Independent T-Test	1.272	0.043	A significant difference in investment behaviour

As $p = 0.043$ (< 0.05), it indicates that people struggling to save are more likely to shift towards investments in assets like gold and real estate.

Table 5: Statistical Analysis and Hypothesis Testing

Table 5.1 Regression Analysis

Regression Analysis was used to predict whether personal income, inflation's impact on savings, and seeking additional income influence spending reductions.

Model	R^2	p-Value	Conclusion
Regression	0.072	0.065	Weak predictability

As $R^2 = 0.072$, the model explains only 7.2% of the variance in spending behaviour. Value of $p = 0.065$ (> 0.05), indicating weak statistical significance.

Table 5.2 One-Way ANOVA

One-way ANOVA was conducted to compare investment behaviour across income groups:

Test	F-Value	p-Value	Conclusion
ANOVA	2.372	0.075	No significant difference

$p = 0.075$ (> 0.05), suggesting no statistically significant difference in investment behaviour across income groups.

Summary of the Findings :

Inflation significantly affects discretionary spending (Chi-Square Test, p = 0.015). People who struggle to save are more likely to invest (T-Test, p = 0.043). Savings are negatively impacted by inflation (Correlation Analysis, p = 0.019). No strong evidence that investment behaviour differs significantly across income levels (ANOVA, p = 0.075). Regression analysis shows only weak predictability of spending reduction ($R^2 = 0.072$, p = 0.065).

Interpretations of Results :

It emphasizes the impact inflation has on individuals' money management. The Chi-Square test (p = 0.015) indicates that low-income earners tend to reduce spending more on non-essentials than high-income earners. It is believed that when things cost more, individuals will spend more on necessary goods rather than luxury goods.

Moreover, the correlation analysis (r = 0.235, p = 0.019) indicates that inflation hurts personal savings. It is in line with earlier research that, individuals worry about meeting basic needs rather than saving for the future.

Surprisingly, investment tendencies differ based on one's capability to save. The T-Test (p = 0.043) indicates that people who are not able to save money are more likely to seek other investment sources, for instance, gold or property, as a means to shield their wealth from inflation.

However, the regression model ($R^2 = 0.072$, p = 0.065) indicates that inflation is not wholly responsible for explaining why people modify their consumption patterns. It may be due to various reasons such as financial literacy, employment opportunities or policies by government.

The One-Way ANOVA test (p = 0.075) indicates there is no significant variation in investment habits within the different income groups, not going with the hypothesis that richer people would not diversify their portfolios to a greater extent. It may be because people are averse to changes whether it be monetary or lifestyle and people aren’t very aware of alternative means of investing.

Deaton (1992) noted that poorer households will first cut down unessential and luxury expenditures. This agrees with the results of this study's Chi-Square test, which accepts that individuals earning lower income are more likely to reduce unnecessary spending when inflation is high.

Friedman's Permanent Income Hypothesis of 1957 posits that individual base consumption decisions on expected long-run rather than short-run income. Partly, this research confirms this notion, in that the results of the regression analysis show that inflation does not entirely dictate behaviour—there are other determinants as well.

Lieb & Schaffel’s (2022) analysed how inflation expectations affect consumer expenditures and determined that inflation influences household budgets negatively. The same study's correlation analysis confirms their conclusion, indicating a correlation between inflation and less ability to save.

Not all findings were consistent with earlier research:

Blanchard (2000) posited that richer people make drastic changes to their investment patterns in times of inflation. Yet, this research's ANOVA findings did not identify drastic differences in one’s investment behaviour regardless of their income, thus contradicting the hypothesis.

Storm (2022) highlighted that digital financial solutions can assist individuals in coping with the impact of inflation. Yet this research did not study the role of fintech solutions and it is open for future research.

Limitations of the study :

Though this research offers great insight, it does contain some limitations:

The research was conducted on a particular population, so the results might not be generalizable to all areas or groups.

As the data is based on self-reported surveys, there is a possibility that the participants might have responded negligently or without proper intent, which might influence the validity of the findings.

Conclusions And Recommendations :

This research investigated the impact of inflation on personal expenditure patterns.

The main discoveries are:

Inflation affects discretionary expenditure the most, as low-income earners tend to reduce expenditure on non-essential goods.

- Savings are affected as individuals tend to pay for their present needs rather than to focus on future needs or savings.
  saving for the future.
- Some invest in alternative assets to secure their wealth, but investment tends to differ from individual to individual across various levels.

Future studies might investigate several key issues:

Saving and spending behaviours change from time to time regarding the change in inflation. So, it will be worthwhile to study as it will provide more insight into financial coping strategies.

As most of the money products are digitalised it may assist in understanding how consumer deals with the rise in inflation.

Using behavioural economic models may uncover how inflation affects money decisions at a level above mere numbers—emotions, perceptions, and risk tolerance.

REFERENCES :

1. Cieslak, A., Pflueger, C., Fuqua School of Business, Duke University, Durham, North Carolina, USA, National Bureau of Economic Research, Cambridge, Massachusetts, USA, Centre for Economic Policy Research, London, United Kingdom, & Harris School of Public Policy, University of Chicago, Chicago, Illinois, USA. (2023). Inflation and asset returns. In *Annual Review of Financial Economics*. https://doi.org/10.1146/annurev-financial-110921-104726
2. Deaton, A. & Research Program in Development Studies and Center for Health and Wellbeing, Princeton University. (2005). *Franco Modigliani and the Life Cycle Theory of Consumption*. https://www.princeton.edu/~deaton/downloads/romelecture.pdf
3. Friedman, M. (1957). The permanent income hypothesis. In M. Friedman, *A Theory of the Consumption Function* (pp. 20–37). https://www.nber.org/system/files/chapters/c4405/c4405.pdf
4. Lakshmanamoorthy, S., & Athinarayanan, S. (2024). Balancing Act: Exploring the Relationship between Inflation and Consumer Behaviour. *Shanlax International Journal of Economics*, *12*(2), 8–12. https://doi.org/10.34293/economics.v12i2.7194
5. Lieb, L., & Schuffels, J. (2022). Inflation expectations and consumer spending: the role of household balance sheets. *Empirical Economics*, *63*(5), 2479–2512. https://doi.org/10.1007/s00181-022-02222-8
6. Mishkin, F. S. (1986). *The economics of money, banking and financial markets*. http://ci.nii.ac.jp/ncid/BA13949914
7. Muruganantham, G., Bhakat, R. S., & Priyadharshini, K. (2013). EFFECT OF INFLATION ON INDIAN CONSUMER'S PURCHASE INTENTION. In Indian Institute of Management Shillong & National Institute of Technology, Tiruchirappalli, *11th EBES Conference Proceedings*. THE INSTITUTE OF ECONOMICS, URAL BRANCH OF RUSSIAN ACADEMY OF SCIENCES. https://www.researchgate.net/publication/353513625
8. Shiller, R. J. (2019). *Narrative Economics: How stories go viral and drive major economic events*. https://muse.jhu.edu/chapter/2379039/pdf
9. Storm, S. (2022). *Inflation in the Time of Corona and War: The plight of the developing economies*. https://doi.org/10.36687/inetwp192
10. Ministry of Finance, India. (2024). *Annual Economic Survey 2024-25.* https://www.finmin.nic.in