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Abstract- Currently there are a number of macroeconomic problems which hinders the survival of the people of which inflation is a first and knife-edge problem. The research is carried out in Ambo town, which is located in Oromia regional state Western Shoa Zone, Ethiopia. It deals with the overall effects of price hike of food grains on different groups of consumers with different income levels in Ambo town. While conducting the research Descriptive type of research is employed. Both from primary and secondary data were used. Primary data is collected from consumers of the town, which are randomly selected whereas; secondary data is gathered from the bureaus that the issue is concerned. Great emphasis has given for some selected variables, which are directly related with title of study. These major variables are Price trend of food grains, monthly income of consumers and measures taken by consumes to hedge against this hardship. About 250 consumers are selected as a sample. The highly exposed groups to inflation are fixed income receivers which consist of those who receive constant monthly income. Additionally consumers with low income are at first target to be affected by this macroeconomic problem.

Keywords: inflation, food grains, price hike, hyperinflation, Adii/Magna, Teff** and consumers.*

** is the local term used to refer whiteness of an item. In this study it denotes white Teff. The former is in Afaan Oromoo while the latter is in Amharic languages respectively.*

*** is the kind of food grain growing and indigenous to Ethiopia. Teff is staple food in Ethiopia. it is grain from which Biddeena /injera is made.*

I. Introduction

The rapid rise of prices of different commodities has become usual problem in developing countries. Due to this fact peoples spend approximately full of their monthly income in buying and fulfilling different survival necessities. This lead to no saving which in turn brings about weak economy. In robust economy where there is no control of price of various commodities the possibility of rise of prices.

In free market economy where the price of an item is decided by the force of demand and supply there may be fair price. But this is not true where there is no perfect market free market in the world. Hence many argue that the intervention of the government is essential in bringing fair price and protect victims of the price hike. Government can take various measures to control the increase of price which may open the door and facilitate for smooth functioning of the economy.

When the price of a commodity is increased there are various population segments which are affected. Where the price of the commodity increases day and night and the income of the peoples stays the same there is no way to withstand the problem, rather to spend the whole money they have to buy the necessity or forced to shift to other second or third preferences. That means peoples shift to but less expensive products.

There are various basic requirements for life like shelter, food, clothing, water, social and other psychological needs. These are the must in the survival state of anybody. From these requirements food is the one which should be fulfilled for the better life. The availability of food items are mandatory for the existence of the people which in turn leads the way to standing and efficient economy. There are various cereals and grains from which the food items are made.

In Ethiopia different parts of the country has their own staple food items. In southern part of the country specifically in Guraghe and surrounding areas the most consumable food item is *Inset* while in other corners uses grains like *Teff,* wheat, maize, sorghum, barley and others. This study focuses on grain items due to the fact that the location of the study is in center of shoa province where *Teff,* wheat, barley are consumed most. More importantly *Teff* is the most grain used for consumption in Ethiopia and has an important nutritional value (Tadesse, 2009). According to (*Ethiopia Commodity Exchange*, 2008) wheat is also the highly produced and consumed cereal crop in Ethiopia. Nowadays the price of these grains are bidding up from time to time. it has its own impact on the urban dwellers who buys the items from the market not get from the farm unlike farmers. Hence, they are victims of inflation. Urban dwellers consists of different levels of the people in income perspective.

Like other countries of the word Ethiopia is also a country that is highly affected by inflation. The effect of inflation can be seen from different corners like social problems and Economic problems. Social problems like creating instability of life and weakening of the social

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relationship between individuals. Likewise an economic problem such as reduction of purchasing power, which in turn creates other problems, is also among the effect of inflation.

Ambo is located in western shoa zone, in Oromia national regional state at about 112km from capital city, Addis Ababa to the west. Ambo is the capital of the western shoa zone administration. This town has six kebeles that has different proportion of population. The populations of the town are also among those affected by inflation. In the town, there are various assortments of peoples which comprise government workers who are fixed income earners and, merchants who have shops and kiosk get various level of income monthly. On the other hand the other proportions of the dwellers are daily laborers who earn daily income which cannot even cover the daily expense for food. The income level of those dwellers varies from low income to high. The high proportions of the population are low and middle-income receivers. Hence this study find out different problems arisen due to the inflation and measures taken by households to hedge themselves against this problem.

It is obvious that currently inflation is the serious problem throughout the world i.e. developed and developing countries. In Ethiopia inflation becomes the most factor that decrease the purchasing power of households, especially those who earns fixed income and poor. Since inflation decreases the exchange value of money, it is impossible for income of the households to increase proportionally with decrease in the purchasing value of money.

In Ambo, most of the households are poor and fixed income receivers. Due to this, the influence of inflation on purchasing power of households could be observed. It is because of this impact that the study is initiated. No research has been done in this area with the regard to the effect of increment in price of food grains on the life of the households and the measures taken to curb the effect.

a) *Objective of the study*

The objective of this study is to identify the effects of inflation on consumers' purchasing power of food grain markets. Specific objectives of the study are:

- ✓ To assess measures to be taken by consumers and government in order to address inflation problems.
- ✓ To identify groups of consumers that mostly affected by inflation.
- ✓ To identify types of food grains those which have shown the largest variation in price.
- ✓ To know the causes for reduction of purchasing power of consumers.

II. Literatures Review

a) *Drivers of food inflation and ways to ensure price stability of food items*

As a research done in India there are various drivers of food inflation. These are capital stock deficiency which lead to shortages in supply. The other driver is demand Side drivers- demand-side inflation drivers, especially those arising from a sharp rise in personal disposable income and an expansionary fiscal policy, have also played an important role in keeping inflation persistently high. The third main driver is food price pressures and import price pressures. Furthermore, Inflation expectations overall, inflation expectations have been largely driven by food price inflation in India as food constitutes more than 50 percent of the average Indian household's consumption basket. Finally factors like food subsidy in India which is poorly targeted causes inefficient storage and mal-functioning of public distribution System has also led to inflation of food commodities (Capehart & Richardson, 2008; FAO, 2010; Kumari, 2013). Higher prices of food items seriously affected the major macroeconomic variables of Bangladesh economy such as revenue expenditures and balance of payment position. Food inflation in Bangladesh is triggered by both domestic and international reasons. Internationally the reason are, Droughts in major wheat-producing countries in 2005-06 while floods and cyclones in rice producing countries, Low grain reserves, High oil prices, A doubling of per-capita meat consumption in some developing countries and Diversion of 5 per cent of the world's cereals to agro fuels. Domestically Controlling Supply Chain through Syndication, Negligence of agriculture sector, Increasing Dependency on Import, Fluctuations of Food Grain Prices in Domestic Market and Currency Depreciation are the basic reasons found that trigger food grain items inflation in Bangladesh (Saha, 2013).

To ensure the stability food price hike the government ought to strengthen the supply chain so as to avoid wastage of perishable products, promoting interstate trade, a commodity for which market fee has been paid once must not be subjected to subsequent market fee in other markets including that for transaction in other states. Only user charges linked to services provided may be levied for subsequent transactions, arrest the adverse impact of food inflation on the common man, the policy of the government should emphasis on the PDS, foreign trade policy, and distribution of essential commodities at below market prices through state public-sector units (PSUs), anti-hoarding operations, and strengthening of supply chain efficiency, Extension programs and guidance to farmers regarding fertilizer and insecticide uses an alternate cropping pattern based on soil analysis could be undertaken and intensified and the Government (Kumari, 2013; Shev, 1998)Government can minimize

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the effect by establishing good and health agricultural value chain in which the participants who increase prices are identified and restrict the domestic price increment. Additionally price on cereals products can be restricted by fixing the amount of grain to be exported via quotas, imposing high export tariffs. The government can also use non-tariff controlling mechanisms (OECD-FAO, 2008; Trostle, 2008).

b) Consequences of price hike of food grain

According to (McConnell and Stanley, 2005 and 2006; Cranfield, 2010), inflation has different perspectives from output and the second one is its effect on employment and economic growth. Which is strongly intertwined with total spending. In addition price hike harms total production output, income and distribution of wealth (McConnell and Stanley, 2005).

There are various societal classes who are victims of price hikes that occurs in a given economy. According (Alexander & Hurt, n.d.; Capehart & Richardson, 2008; Saha, 2013). The population category who suffered from increasing in price of food grains are farmers in the first place. This is due to the fact that the price at which farmers sell the grain at times is quite different from the price market intermediaries sell to the final consumers. That means intermediaries like wholesalers and retailers increases the price unfairly. In this course the farmers cannot get enough money to buy necessary items for their livelihood. Furthermore low and middle income receivers are at the first line to be affected by inflation (Dev, 2009; Eckart Woertz, Eduard Soler, 2014).

c) Consequences of price hike of food grain in Ethiopia

It is true that whenever inflation occurs the consumption patterns of household may change to hedge themselves against the problem. This leads to change in expenditure. The study undertaken in Ethiopia (Gelaw & Sileshi, n.d.) Shows that the increment in price/inflation leads to poverty. The study revealed that rise in grain prices is expected to increase the incidence of poverty and its severity. Besides the government strategy of minimizing the poverty is not achieved unless the government focuses on minimizing the negative effect of inflation on grains.

According to (Samuelson and Nordhaus, 2005), Central bankers are united in their determination to contain inflation. During periods of high inflation, opinion polls often found that inflation is economic enemy number one and hence the effect of inflation can be: Impact on income and wealth distribution- inflation affects the distribution of income and wealth primarily because of differences in the asset and liabilities that people hold. Unanticipated inflation hurts fixed income receivers like severs and creditors. It redistributes real income away from them and towards another (McConnell and Stanley, 2006). Likewise, inflation affects the real output. Unexpected rise in key resources price such as oil can sufficiently drive up overall production cost-push inflation. As prices rises the quantity of goods and services demanded falls so firms respond by producing less output. As to the (Trostle, 2008) report inflation of food commodities may bring social unrest specially in developing countries like Ethiopia and problems on food security.

Deviating largely from its traditional behavior, price of grains was soaring by the day in the supply glut as well as leaner seasons since the onset of 2005. Combination of different factors hence made prices to soar and overall food price inflation to persist despite range of action taken by the government to curb the grain price hike. (European commission delegation to Ethiopia, 2007).

According to (European commission delegation to Ethiopia, 2008), there are several factors that revolve around structural changes in the economy like depletion of producers' stock caused by attractive prices offered by cooperatives earlier in the season which motivated producers to dispose their surpluses with in the short period that followed harvest and extensive maize and sorghum grain trade from surplus to deficit areas stimulated by consumption shifts from *Teff* to wheat because of their high prices. Stockpiling grain by cooperatives and unions which still hesitate to open stocks for sale and are expecting further price increases. In addition unlawful export and stockpiling of grain such as *Teff* by a few traders despite banning of such actions by the government and weevil damage on grain, sorghum and maize due to the prolonged store causes the price of some commodity items increase.

d) Research methodology

Data has been taken from both primary and secondary sources. Primary data is collected directly from consumers of Ambo town dwellers and surrounding inhabitant. Data is collected from consumers through questionnaire. Sample size of 250 individuals were selected out of which 135 are male and the rest 115 are females. The sample are randomly selected from the total population of Ambo town and nearby settlers. The education level of respondents varies from primary school to higher education graduates and amateur. The age of respondents who forwarded various suggestion and comments concerning inflation varies from 20 to 60. Secondary data on food grain price from the year 2007 to 2009. Secondary data is gathered from two bureaus of Ambo namely, Ambo woreda Trade Industry and Transportation bureau and Agricultural and rural development office.

e) Income of consumers

Consumers generate their income from different activities like being employee in government and non–governmental organizations, private jobs like trading, farming and daily laborer. From these activities they

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generate revenue that uses to undergo the living process. The levels of income generated by individuals vary from one to another. According to the table 1 below there are four groups arranged for simplicity. First group income level runs between 0 and 500 birr. From total sample size 40% falls in this group, which consists of 100 persons from the total sample. The second group's income varies from 500 – 1000 birr that has 25.6% of total sample size. Third and fourth group do consist about 18.8% and 15.6% of sample size taken respectively. Here it can be concluded that the majority of the respondents fall in very low [8] income group which is less than 500 birr per month. This amount is not enough to purchase all the necessary requirements of life.

Table 1 : Income of consumers

S.N	Income per month	Male	Female	total	percentage
1	0-500 birr	55	45	100	0.4
2	500-1000 birr	30	34	64	0.256
3	1000-2000 birr	25	22	47	0.188
4	Above 2000birr	25	14	39	0.156
	total	135	115	250	1

f) Measures taken by consumers

Normally when the problem is occurred human being search a sort of solution for it. Similarly, consumers in Ambo town took different measures to withstand the problem. As depicted on chart 1 there are different alternative measures consumers exercised to hedge themselves. Among these alternatives like shifting (total and partial), lessen in consumption amount and frequency are some.

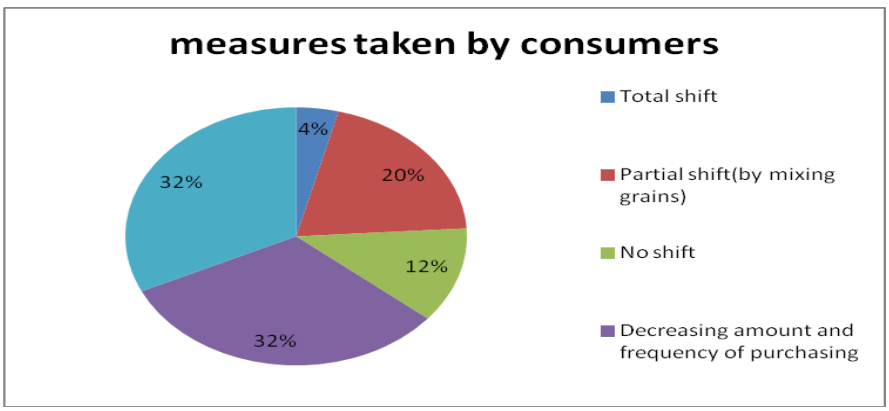
Total shifting occurred when the income of the consumer is not enough to cope up with the price of the previously consumed food grain. Hence, the consumers obliged to shift to low price grain compared to the previous one. This shifting is like to cease consumption of *Teff* and go for consumption of wheat and barley which are relatively lower in price. Accordingly, from the total sample about 4% are shifted their consumption which are totally female.

If consumers have potential to withstand the price increment effect of the grains, the next best alternative is to use the mixture of the grains like *Teff* and wheat together. From the total sample size about 20% of consumers fall in the partial shifting.

If mixing grains together is not possible still consumers go for another alternative. That is to minimize the consumption rate. That means reducing amount of grain as well as frequency of consuming per day. About 16% of the sample are reduced their consumption rate i.e. minimize from eating three times per day to two times per day.

If the effect of inflation comes worst, consumers decided to use the combination of above measures i.e. partial shifting together with consumption reduction. This measure shares about 16% of the total respondents. Finally, 12% of the sample sizes have income above 2000 birr and did not shift totally and stays consuming the previous grain.

Chart 1 : Measures taken by consumers against the inflation



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g) What consumer's say about the solution?

Consumers suggested the following measures ought to be taken by administrative body of the town. The government should abolish exporting the grain before satisfying the demand of homeland, lifting off the high price and try to stabilize the market through setting some appropriate price. The government must also provide the necessary inputs for agricultural sector like Fertilizer, weed killer etc, punishing the retailers that hold the grain and create scarcity of food grains. Moreover, the government is expected to provide grain for society, Creating consumer union (Association), and giving awareness about the number of population i.e. awareness about family size so that the demand for food grains reduced if no high population in the country and supply and demand will be balanced.

h) Price trend of food grains

As shown on table 2, the prices of selected food grains in Ambo show increases from time to time. This bidding up of price influences the purchasing power as well as purchasing frequency of consumers. Data gathered from trade, Industry and Transportation and agricultural and development bureaus shows this on selected grains.

The price of grains such as *Teff*, wheat, barley, and other grains fluctuated like saw teeth. Especially from the year 2007 to 2009, the price changes greatly i.e. increments of the price shown in Ambo town. The price variation of selected food grains looks like the following according the data elicited from agricultural and rural development and trade, industry and transportation bureaus of Ambo woreda including the price per 100kg for three years. Although the degree of influence of inflation on different group of people differs, there are a group people highly vulnerable to the effect of inflation. From the total sample size taken about 98% responded they highly exposed group to effect of inflation is fixed income receivers which consists of those get consistent monthly income. Additionally, consumers those income level is less than 500 birr per month are at first target to be affected by this macroeconomic problem in relation to those consumers whose income is between 500 – 1000 birr. At the same time these group is affected more than the next group which income varies from 1000 birr to 2000 birr.

This bidding up of prices forces consumers to change their consumption from the previous one. Likewise, consumption amount of grains varied from individual to individual. According to data collected almost all respondents consumption amount reduced by more than 4 kilogram per individual per month.

Table 2 : price trend of food grains

SN	Type of food grains	Price interval per 100kg (in birr)		
		2007	2008	2009
1	Teff			
	Adii/Magna	435.50-475	440-580	830-1050
	Mixed	400-450	385-520	600-920
	Red	347.50-412.50	320-460	800-890
2	Wheat			
	White	266.25-306.25	275-470	500-780
	Mixed	252.50-291.25	290-450	425-730
3	Barley			
	White	258-325	285-390	500-720
	Black	250-294	270-370	450-650

i) Measures ought to be taken by the government

Respondents forwarded various actions that the government ought to take in order to come up with conducive environment for consumers and improve the socio-economic aspect of the country. Among the possible potential solutions, marketing stability is the first consumers said the government should intervene in such cases when this kind of problems occurred. Even though, the price of everything is adjusted by Demand and supply side in the free market economy, the government should inter its hand into the market to make it fair for consumers.

Another potential measure is to ban the exporting of food grains. As per response of consumers exporting grains should only performed when the need and want of domestic people is fulfilled i.e. when surplus is arises from the domestic demand.

Moreover, punishing and warning illegal retailers those performs activities of holding the grains and sell it out of the time of high price. Likewise, legal retailers also should be highly controlled and punished when they performed accumulating grains.

Furthermore, the government should provide food grains in order to assist them through directly distributing to the society by low possible price through eliminating the intermediaries. Together with this the administrative body must do some activities related with uniting the consumers in purchasing the grains at the

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time of relatively low price i.e. consumer association should be created that buys and distribute to the members at low price. This consumer association helps a lot in avoiding unnecessary cost related with buying grains.

Above all the great emphasis should be given to countryside residents where grains come from. Government should help the farmers in providing the necessary facilities that strengthen the agricultural sector. This can be done through minimizing the number of migrants from rural to urban and make them productive force.

III. Conclusion

According to this study, inflation showed various degree of influence on consumers based on their level of income. From the whole consumers, mostly those income group between zero and 500 birr are highly affected followed by those whose income is from 500 -1000 birr. At the same time, fixed income receivers are highly exposed to the effect of inflation since they receive constant amount of income monthly.

Consumers did some sort of measures to hedge themselves against the problem among these alternatives like shifting (total and partial), lessen in consumption amount and frequency of consumption and mixing grains together.

Among the food grains consumed around Ambo, *Teff* is dominant followed by wheat, Barley, Sorghum and etc. From these grains *Teff* shows the greatest variation (increased in high amount) in its price (especially magna *Teff*) followed by wheat.

Moreover, the purchasing power of the society is reduced due to the fact that, the price of grains increases from time to time. This increment of price weakens the amount of the grains to be purchased which in turn brings about declining in purchasing power.

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