



EROSION OF ECONOMIC STABILITY: AN EMPIRICAL STUDY ON INFLATION AND THE DECLINING PURCHASING POWER OF INDIA'S MIDDLE CLASS

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Paper Received On: 21 APRIL 2026

Peer Reviewed On: 25 MAY 2026

Published On: 01 JUNE 2026

Abstract

Inflation remains a major macroeconomic issue that directly impacts household purchasing power, especially within the middle-income group. This study explores how rising price levels affect consumption habits, savings patterns, and overall financial stability of middle-class families in India. The research is based on primary data collected through structured questionnaires, along with supporting secondary data. It identifies a growing mismatch between income growth and increasing living expenses. The results show that inflation has reduced real income, compelling households to focus more on essential needs while cutting down on non-essential spending. Furthermore, the ability to save and invest has declined, leading many families to depend on credit facilities for managing expenses. The study also reveals increased financial pressure and stress among respondents. It suggests measures such as wage adjustments, tax benefits, and improved financial literacy to reduce the adverse effects of inflation on middle-class households.

Keywords: *Inflation, Purchasing Power, Middle Class, Cost of Living, Real Income, Savings, Financial Stress, Consumer Behavior, Economic Stability*

1. Introduction

Inflation is defined as a continuous rise in the general price level of goods and services in an economy over a period of time. As prices increase, the purchasing power of money declines, meaning that consumers are able to buy fewer goods and services with the same level of income. While a moderate level of inflation is often associated with economic growth and

increased production, persistent or high inflation can create serious economic imbalances and reduce the standard of living, particularly for middle-income groups.

In the Indian context, the middle class plays a crucial role in driving economic development through its contribution to consumption, savings, and investment activities. This segment of the population largely relies on fixed or moderately increasing income sources such as salaries, pensions, and small business earnings. Unlike higher-income groups, they have limited financial flexibility, and unlike lower-income groups, they often do not receive significant government subsidies. As a result, they are highly vulnerable to fluctuations in price levels.

In recent years, inflation in India has been influenced by multiple factors, including rising fuel costs, disruptions in global supply chains, currency fluctuations, and the economic impact of the COVID-19 pandemic. These factors have led to a steady increase in the prices of essential commodities such as food, housing, healthcare, transportation, and education. Consequently, middle-class households are compelled to allocate a larger portion of their income toward basic necessities, leaving less scope for discretionary spending, savings, and investments.

Moreover, the gap between income growth and inflation has widened, resulting in a decline in real income. This situation not only affects the financial stability of households but also creates psychological stress and uncertainty regarding future financial security. Many families are increasingly relying on credit facilities such as loans and credit cards to maintain their standard of living.

Against this background, the present study seeks to examine the impact of inflation on the purchasing power of middle-class households in India. It aims to analyze changes in consumption patterns, savings behavior, and overall financial stability. The study also attempts to highlight the broader economic and social implications of sustained inflation and suggests possible measures to reduce its adverse effects on the middle-income group.

2. Research Methodology

Research methodology provides a systematic framework for conducting the study and ensures that the findings are reliable and valid. This section outlines the objectives, hypothesis, research design, data collection methods, sampling, and tools used for analysis in the study of the impact of inflation on the purchasing power of middle-class households.

2.1 Objectives

- To examine the impact of inflation on purchasing power
- To analyze changes in consumption patterns
- To study the effect on savings and investments

- To assess financial stress among middle-class households
- To suggest measures to reduce inflationary impact

2.2 Hypothesis

To provide a scientific basis for the study, the following hypotheses have been formulated:

- **H₀ (Null Hypothesis):** Inflation does not have a significant impact on the purchasing power of middle-class households.
- **H₁ (Alternative Hypothesis):** Inflation has a significant negative impact on the purchasing power of middle-class households.

These hypotheses help in testing the relationship between inflation and purchasing power based on the collected data.

2.3 Research Design

The study adopts a descriptive and analytical research design. The descriptive approach is used to present the current situation of middle-class households in relation to inflation, while the analytical approach helps in examining the relationship between variables such as income, expenditure, savings, and inflation. This combination enables a better understanding of both the nature and impact of inflation.

2.4 Data Collection

Both primary and secondary data have been used in this research to ensure comprehensive analysis.

- **Primary Data:** Primary data has been collected through a structured questionnaire distributed among middle-class respondents. The questionnaire includes both closed-ended and multiple-choice questions to gather information about income levels, expenditure patterns, savings behavior, and financial stress.
- **Secondary Data:** Secondary data has been obtained from reliable sources such as government reports, research journals, economic surveys, and publications related to inflation and household economics. This helps in supporting and validating the primary findings.

2.5 Sample Size and Sampling Technique

The study is based on a sample of 50 to 100 middle-class respondents from urban and semi-urban areas. A convenience sampling method has been used due to time and resource constraints. The selected respondents represent different occupations and income groups within the middle-class category, ensuring a reasonable level of diversity in the data collected.

2.6 Tools of Analysis

The collected data has been analyzed using simple and effective statistical tools.

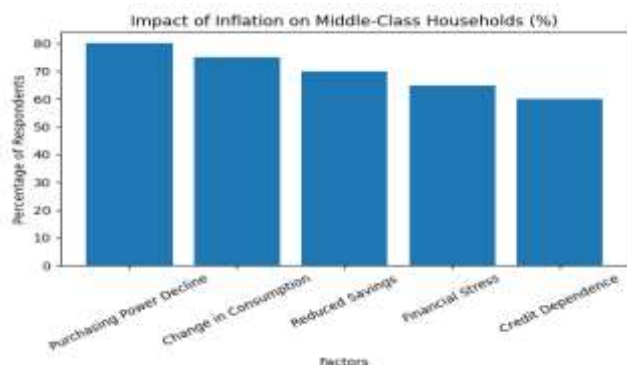
- **Percentage Analysis:** Used to present responses in a simplified and understandable form.
- **Comparative Analysis:** Helps in comparing changes in income, expenditure, and savings before and after the rise in inflation.
- **Tabular Interpretation:** Data is organized into tables for clarity and better understanding of patterns and trends.

These tools enable meaningful interpretation of data and help in drawing valid conclusions regarding the impact of inflation on purchasing power.

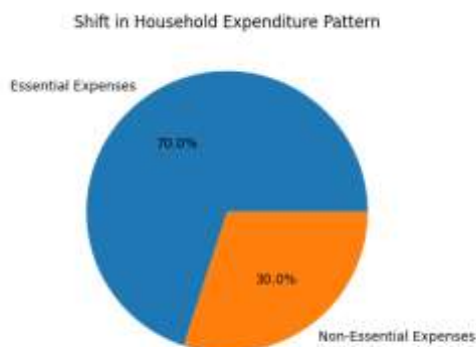
3. Results and Discussion: The analysis of data collected from middle-class respondents shows that inflation has had a strong impact on their financial condition and lifestyle. Rising prices have affected not only their economic stability but also their overall well-being. The key findings of the study are discussed below:

3.1 Decline in Purchasing Power

The study reveals that most respondents are experiencing a decline in purchasing power. Although income levels may remain stable or increase slightly, the continuous rise in prices of essential goods such as food, fuel, and housing has reduced their ability to afford the same standard of living. A larger share of income is now spent on basic necessities, leaving limited disposable income.



3.2 Changes in Consumption Patterns



Inflation has led to noticeable changes in consumption behavior. Households are prioritizing essential goods and cutting down on non-essential expenses such as entertainment, travel, and luxury items. Many respondents have shifted to more affordable alternatives, reflecting a cautious approach to spending.

3.3 Reduction in Savings and Investments

The findings indicate a decline in savings and investment capacity. As expenses on daily necessities increase, households find it difficult to save regularly. Investment in long-term financial instruments has also reduced due to limited surplus income, affecting future financial security.

3.4 Increase in Financial Stress

Financial stress has increased among respondents due to rising expenses and limited income growth. Many households are facing anxiety regarding their financial future, especially in meeting long-term goals like education, healthcare, and retirement.

3.5 Growing Dependence on Credit Facilities

The study shows an increased reliance on credit facilities such as loans, credit cards, and EMIs. These are used to manage expenses and maintain living standards, but they also increase financial burden in the long run.

3.6 Widening Gap Between Income and Inflation

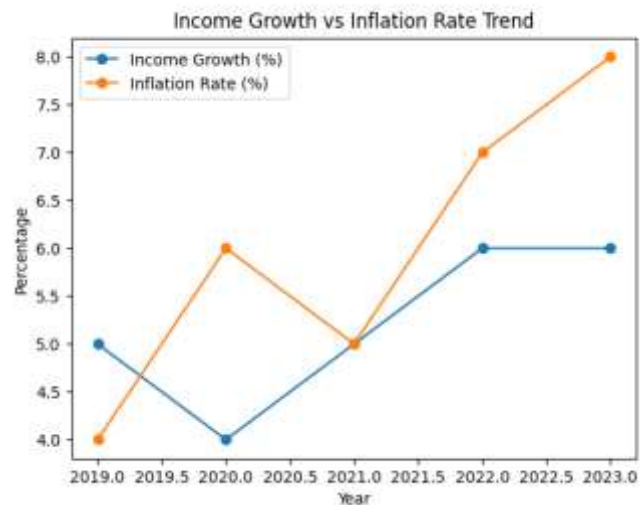
Income growth has not kept pace with inflation, resulting in a gap between earnings and expenditure. This has led to a decline in real income and a gradual reduction in the standard of living of middle-class households.

Overall, the results highlight that inflation has a significant impact on purchasing power, consumption patterns, savings, and financial

stability, creating both economic and psychological challenges for the middle-income group.

4. Conclusion

The study concludes that inflation has a significant and adverse impact on the purchasing power of middle-class households in India. The continuous rise in the prices of essential goods and services has reduced real income, making it difficult for families to maintain their previous standard of living. As a result, households are compelled to prioritize basic needs over discretionary spending, which has led to noticeable changes in consumption patterns. The study



also highlights a decline in savings and investment capacity, as a larger portion of income is now allocated toward daily expenses.

Furthermore, the middle class, which largely depends on fixed or moderately increasing income sources, is more vulnerable to inflationary pressures compared to other income groups. The imbalance between income growth and rising costs has increased financial stress and created uncertainty regarding future financial stability. Many households are also becoming increasingly dependent on credit facilities to manage their expenses.

Overall, persistent inflation not only affects economic stability but also impacts the psychological well-being and long-term financial planning of middle-class families, indicating the need for effective policy measures to reduce its adverse effects.

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