

1 Is Shifting the Best Therapy for Rising in Price of Food Grains?
2 The Effects of Price Hike of Food Grains on Consumers in Ambo
3 Town, Ethiopia

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6 *Received: 6 December 2015 Accepted: 1 January 2016 Published: 15 January 2016*

7

8 **Abstract**

9 Currently there are a number of macroeconomic problems which hinders the survival of the
10 people of which inflation is a first and knife-edge problem. The research is carried out in
11 Ambo town, which is located in Oromia regional state Western Shoa Zone, Ethiopia. It deals
12 with the overall effects of price hike of food grains on different groups of consumers with
13 different income levels in Ambo town. While conducting the research Descriptive type of
14 research is employed. Both from primary and secondary data were used. Primary data is
15 collected from consumers of the town, which are randomly selected whereas; secondary data is
16 gathered from the bureaus that the issue is concerned. Great emphasis has given for some
17 selected variables, which are directly related with title of study.

18

19 **Index terms**— inflation, food grains, price hike, hyperinflation, Adii/Magna*, Teff** and consumers.

20 **1 Introduction**

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

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

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

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

39 In Ethiopia different parts of the country has their own staple food items. In southern part of the country
40 specifically in Guraghe and surrounding areas the most consumable food item is Inset while in other corners
41 uses grains like Teff, wheat, maize, sorghum, barley and others. This study focuses on grain items due to the
42 fact that the location of the study is in center of shoa province where Teff, wheat, barley are consumed most.

3 LITERATURES REVIEW A) DRIVERS OF FOOD INFLATION AND WAYS TO ENSURE PRICE STABILITY OF FOOD ITEMS

43 More importantly Teff is the most grain used for consumption in Ethiopia and has an important nutritional
44 value (Tadesse, 2009). According to (Ethiopia Commodity Exchange, 2008) wheat is also the highly produced
45 and consumed cereal crop in Ethiopia. Nowadays the price of these grains are bidding up from time to time.
46 it has its own impact on the urban dwellers who buys the items from the market not get from the farm unlike
47 farmers. Hence, they are victims of inflation. Urban dwellers consists of different levels of the people in income
48 perspective.

49 Like other countries of the word Ethiopia is also a country that is highly affected by inflation. The effect of
50 inflation can be seen from different corners like social problems and Economic problems. Social problems like
51 creating instability of life and weakening of the social relationship between individuals. Likewise an economic
52 problem such as reduction of purchasing power, which in turn creates other problems, is also among the effect of
53 inflation.

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

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

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

72 2 a) Objective of the study

73 The objective of this study is to identify the effects of inflation on consumers' purchasing power of food grain
74 markets. Specific objectives of the study are: ? To assess measures to be taken by consumers and government in
75 order to address inflation problems.

76 ? To identify groups of consumers that mostly affected by inflation.

77 ? To identify types of food grains those which have shown the largest variation in price.

78 ? To know the causes for reduction of purchasing power of consumers.

79 II.

80 3 Literatures Review a) Drivers of food inflation and ways to 81 ensure price stability of food items

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

99 To ensure the stability food price hike the government ought to strengthen the supply chain so as to avoid
100 wastage of perishable products, promoting interstate trade, a commodity for which market fee has been paid
101 once must not be subjected to subsequent market fee in other markets including that for transaction in other
102 states. Only user charges linked to services provided may be levied for subsequent transactions, arrest the adverse

103 impact of food inflation on the common man, the policy of the government should emphasize on the PDS, foreign
104 trade policy, and distribution of essential commodities at below market prices through state public-sector units
105 (PSUs), antihoarding operations, and strengthening of supply chain efficiency, Extension programs and guidance
106 to farmers regarding fertilizer and insecticide uses an alternate cropping pattern based on soil analysis could
107 be undertaken and intensified and the Government (Kumari, 2013; Shev, 1998) Government can minimize the
108 effect by establishing good and healthy agricultural value chain in which the participants who increase prices are
109 identified and restrict the domestic price increment. Additionally price on cereals products can be restricted by
110 fixing the amount of grain to be exported via quotas, imposing high export tariffs. Saha, 2013). The population
111 category who suffered from increasing in price of food grains are farmers in the first place. This is due to the fact
112 that the price at which farmers sell the grain at times is quite different from the price market intermediaries sell
113 to the final consumers. That means intermediaries like wholesalers and retailers increase the price unfairly. In
114 this course the farmers cannot get enough money to buy necessary items for their livelihood. Furthermore low
115 and middle income receivers are at the first line to be affected by inflation (Dev, 2009; Eckart Woertz, Eduard
116 Soler, 2014).

117 **4 c) Consequences of price hike of food grain in Ethiopia**

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

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

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

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

146 **5 d) Research methodology**

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

155 **6 e) Income of consumers**

156 Consumers generate their income from different activities like being employee in government and nongovernmental
157 organizations, private jobs like trading, farming and daily laborer. From these activities they generate revenue
158 that uses to undergo the living process. The levels of income generated by individuals vary from one to another.
159 According to the table 1 below there are four groups arranged for simplicity. First group income level runs
160 between 0 and 500 birr. From total sample size 40% falls in this group, which consists of 100 persons from the
161 total sample. The second group's income varies from 500 -1000 birr that has 25.6% of total sample size. Third

9 TABLE 2 : PRICE TREND OF FOOD GRAINS I) MEASURES OUGHT TO BE TAKEN BY THE GOVERNMENT

162 and fourth group do consist about 18.8% and 15.6% of sample size taken respectively. Here it can be concluded
163 that the majority of the respondents fall in very low [8] income group which is less than 500 birr per month. This
164 amount is not enough to purchase all the necessary requirements of life.

165 7 Table 1 : Income of consumers f) Measures taken by consumers

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

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

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

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

183 If the effect of inflation comes worst, consumers decided to use the combination of above measures i.e. partial
184 shifting together with consumption reduction. This measure shares about 16% of the total respondents. Finally,
185 12% of the sample sizes have income above 2000 birr and did not shift totally and stays consuming the previous
186 grain. Consumers suggested the following measures ought to be taken by administrative body of the town. The
187 government should abolish exporting the grain before satisfying the demand of homeland, lifting off the high price
188 and try to stabilize the market through setting some appropriate price. The government must also provide the
189 necessary inputs for agricultural sector like Fertilizer, weed killer etc, punishing the retailers that hold the grain
190 and create scarcity of food grains. Moreover, the government is expected to provide grain for society, Creating
191 consumer union (Association), and giving awareness about the number of population i.e. awareness about family
192 size so that the demand for food grains reduced if no high population in the country and supply and demand
193 will be balanced.

194 8 h) Price trend of food grains

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

198 The price of grains such as Teff, wheat, barley, and other grains fluctuated like saw teeth. Especially from
199 the year 2007 to 2009, the price changes greatly i.e. increments of the price shown in Ambo town. The price
200 variation of selected food grains looks like the following according the data elicited from agricultural and rural
201 development and trade, industry and transportation bureaus of Ambo woreda including the price per 100kg
202 for three years. Although the degree of influence of inflation on different group of people differs, there are a
203 group people highly vulnerable to the effect of inflation. From the total sample size taken about 98% responded
204 they highly exposed group to effect of inflation is fixed income receivers which consists of those get consistent
205 monthly income. Additionally, consumers those income level is less than 500 birr per month are at first target
206 to be affected by this macroeconomic problem in relation to those consumers whose income is between 500 -1000
207 birr. At the same time these group is affected more than the next group which income varies from 1000 birr
208 to 2000 birr. This bidding up of prices forces consumers to change their consumption from the previous one.
209 Likewise, consumption amount of grains varied from individual to individual. According to data collected almost
210 all respondents consumption amount reduced by more than 4 kilogram per individual per month.

211 9 Table 2 : price trend of food grains i) Measures ought to be 212 taken by the government

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

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

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

223 **10 SN**

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

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228 Volume XVI Issue I Version I Year () A time of relatively low price i.e. consumer association should be
229 created that buys and distribute to the members at low price. This consumer association helps a lot in avoiding
230 unnecessary cost related with buying grains.

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

234 **12 III.**

235 **13 Conclusion**

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

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

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

246 Moreover, the purchasing power of the society is reduced due to the fact that, the price of grains increases
247 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. ^{1 2 3}



Figure 1: Chart 1 :

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;

Figure 2:

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