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Prices of Basic Necessities, Impact People's Purchasing Power, and Government Efforts to Suppress Inflation

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Abstract. *Inflation in countries is influenced by various factors that influence it. Inflation, which refers to the decline in the value of a country's currency in comparison to commodities such as gold or foreign currencies, needs to be kept stable at a minimum level. This economic phenomenon, including in the context of Indonesia, causes a general increase in the prices of goods and services. The impact is to encourage people to focus more on work than investing, because inflation has negative effects such as weak efficiency and productivity in production, increased capital costs, and uncertainty regarding future costs and income. One of the efforts that the government can make to increase economic growth is to revive export activities. In fact, this has become an obligation to support economic growth in a country. changes in world commodity prices have a significant impact on various aspects of the economy. One of the main findings is that fluctuations in world commodity prices are not only influenced by economic factors, such as global supply and demand, but also by geopolitical factors, climate change, and other unexpected global events. In the context of the agricultural sector, changes in world commodity prices can have a double impact. Although farmers can benefit when commodity prices rise, they can also be vulnerable to sudden price fluctuations. Adoption of innovative agricultural technology and farmer protection policies can be relevant solutions to overcome this uncertainty. This study uses qualitative research methods. Qualitative research is a series of data filtering as is from the data collected to investigate and understand a phenomenon. In this method, the explanation of the phenomenon will be more descriptive.*

Keywords: *Inflation; Money; Research; Solutions.*

1. Introduction

Inflation is a phenomenon where the general price level experiences a continuous increase. The increase in the price of one or two goods alone cannot be called inflation, unless the increase extends to (or causes an increase in) most of the prices of other goods.[1]Inflation is a general increase in commodity prices caused by a lack of synchronization between commodity procurement programs (production, pricing, printing money, etc.) and the level of income possessed by the community.[2]

According to the author says that inflation is a symptom of rising commodity prices caused by several factors which ultimately trigger an increase in the prices of other goods.

Inflation can reduce people's purchasing power, especially those with low incomes. This is because the increase in the price of goods and services, including basic necessities, causes the value of money to decrease.

1) Impact of inflation on purchasing power:[3]

a. People are forced to change their shopping patterns, choosing more affordable products.

b. Low-income people have difficulty meeting their daily needs

c. People are saving, so economic growth is hampered

d. Income gaps and social inequality are getting worse

e. Poverty rates are increasing

f. Nutrition and health problems

2) Government efforts to suppress inflation:[4]

a. Implementing a tight monetary policy

b. Arrange distribution of goods

c. Arrange the staples

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[1] Boediono. (2014) *Ekonomi Makro*. Yogyakarta: BPFE, p. 161
[2]Putong, Iskandar. (2013). *Pengantar Ekonomi Mikro dan Makro*. Jakarta, p. 147
[3]Pengendalian inflasi menjaga kesejahtraan Masyarakat , accessed on 17 March 2025 at 09.53 Wib https://djpb.kemenkeu.go.id/kppn/pangkalpinang/id/data-publikasi/berita-terbaru/2903-pengendalian-inflasi-menjaga-kesejahteraan-community-bangka-belitung.html
[4]Dampak inflasi terhadap kesenjangan pendapatan dan daya beli Masyarakat. accessed on 17 March 2025 at 2025 pukul 10.00 wib.https://journal.arimbi.or.id/index.php/Nuansa/article/download/1444/1693/6952

d. Providing economic stimulus

e. Improving the quality of human resources through education

f. Implementing fiscal policy

3) Types of inflation:[5]

a. Mild inflation, price increases below 10% per year

b. Moderate inflation, price increases of 10%–30% per year

c. Heavy inflation, price increases of 30%–100% per year

d. Hyperinflation (uncontrolled inflation), price increases above 100% per year

Severe inflation and hyperinflation can greatly affect people's purchasing power and endanger the country's economy.

1) Economic growth
For a country, economic growth is one of the focuses that must be achieved every year. The economic growth rate in a country will be one of the benchmarks of success. This is also one of the focuses for Indonesia. According to M. Suparko and Maria R. Suparko, there are several types of tools that can be used to measure economic growth, namely:

a. Gross domestic product
GDP is the sum of final goods and services produced at market prices. The weakness of GDP as a measure of economic growth is its global nature and does not reflect the welfare of the population.

b. GDP per Capita or Per Capita Income
GDP per capita is a more accurate measure because it takes into account the population. So the size of income per capita can be known by dividing GDP by the population.

c. Income Per Hour Worked
A country can be said to be more advanced than other countries if it has a level of income or wages per hour of work that is higher than wages per hour of work in other countries for the same type of work.

2) Framework of Thinking
The theoretical framework or thinking framework is a concept regarding how a theory relates to various factors that have been identified as important to the

[5]Cara mengatasi inflasi pengertian, penyebab dan dampaknya. accessed on 17 March 2025 at 2025 at 10.09 wib https://sahabat.pegadaian.co.id/article/keuangan/inflasi-ilah

research problem.[6]

According to the supply-side theory of inflation, inflation occurs due to shifts in aggregate supply (cost-push inflation and supply shock inflation), which are caused by:

1) Increase in Wage Level, if the wage level increases, this will increase the cost of production, and if it is assumed that producers maintain the expected profit margin, then the selling price will be increased. This increase in the price level encourages producers to reduce their production, which is indicated by a shift in the aggregate supply curve to the left.

2) Increases in domestic prices of goods, especially the prices of goods used as production factors, will also cause an increase in production costs, and will subsequently cause an increase in prices.

3) An increase in the price of imported goods will encourage an increase in the price of domestic products (especially manufactured goods that use imported goods as raw materials), this situation encourages inflation.

4) Structural strength, this describes the pro-economic structure, where the economy is dominated by sectors whose supply elasticity is inelastic (unable to meet increased demand), this situation encourages excess demand so that prices increase.

According to the demand-pull theory of inflation, inflation occurs due to changes in variables that affect aggregate demand (AD), thus creating a state of excess demand called an inflationary gap. Changes in aggregate demand are caused by increases in:

1) expansion of the money supply (JUB), an increase in the amount of money in circulation, will increase the purchasing power of economic actors, which will encourage increased demand, if this condition is not balanced with an increase in supply, it will result in an increase in prices. Such an opinion was also put forward by Classical economists who are members of the quantity theory, they argue that inflation occurs because of an increase in the amount of money in circulation (M) which is not followed by changes in the velocity of money and the amount of goods and services in the economy, as well as the opinion According to Milton Friedman's inflation is a monetary phenomenon caused by an increase in the amount of money in circulation (Ms), an increase in the amount of money in circulation will cause an increase in demand for goods and services, and subsequently, will increase prices.[7]

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[6]Noor dan Juliansyah. (2012). *Metodelogi Penelitian*. Jakarta, p. 76
[7]Mishkin.S, Fredric. (1995). *The Economics of Money, Banking, and Financial Markets*. Harper Collins

2) Increased public consumption (caused by an increase in population and per capita income) will lead to excess demand and subsequently increase prices.

3) Increased investment will encourage increased demand for raw materials and auxiliary materials, increase people's income, all of which will encourage increased demand and increased prices.

4) Increased government spending will cause an increase in demand for goods and services in the economy, thus driving up prices. According to Keynes, the truly important demand inflation is that caused by government spending, especially that related to war, the government's massive investment program in social capital, especially in developing countries, which are trying to accelerate their economic growth rate, can cause strong inflationary pressures.[8]

5) Net exports (trade balance surplus) cause an increase in purchasing power due to the increase in foreign exchange earned.

Money in the economy functions as a tool to help economic actors make transactions (although theoretically it also plays a role as a tool for precaution and speculation). Therefore, the existence of money plays a very important role in the development of an economy, on the one hand it can make the economy grow rapidly so that it can prosper economic actors, but on the other hand money can also hinder economic movement due to the influence of inflation and deflation. Therefore, the adequacy of the amount of money needed is the main task of the monetary authority to determine and regulate it.

Changes in world commodity prices have a significant impact on various aspects of the economy. One of the main findings is that fluctuations in world commodity prices are not only influenced by economic factors, such as global supply and demand, but also by geopolitical factors, climate change, and other unexpected global events. In the context of the agricultural sector, changes in world commodity prices can have a double impact. Although farmers can benefit when commodity prices rise, they can also be vulnerable to sudden price fluctuations. Adoption of innovative agricultural technologies and farmer protection policies can be relevant solutions to overcome this uncertainty.

Meanwhile, the industrial and manufacturing sectors are also affected by changes in global commodity prices, especially in terms of raw material costs. Companies must carefully manage their supply chains and consider diversification strategies to reduce the risk of commodity price volatility. In terms of social impact, changes in global commodity prices can affect inflation rates, which in turn can affect people's purchasing power. More vulnerable groups such as the lower middle class can feel this impact more significantly. Therefore, prudent fiscal and monetary

Publishers, p. 33
[8]ACLI Gardner. (1973). *Teori ekonomi makro*. Jakarta: BP UI. P. 12

policies need to be implemented to maintain economic stability and protect social welfare.

According to the doctrine of adaptive expectations, economic actors will adjust their expectations with past experiences, namely learning from mistakes that have been made. While rational expectations are optimal predictions about the future using all available information. The rational expectations hypothesis states that people will not make systematic errors in forming their expectations. This hypothesis uses the assumption that people base their expectations or estimates of inflation on all available economic information about the behavior of the variable in the future. According to Lucas in the rational expectations model, prices are not fixed or predetermined, but are influenced by increases in the money supply, while the money supply at time "t" is a function of the previous period's output level plus unforeseen disturbances.[9]

2. Research Methods

This study uses a qualitative research method. Qualitative research is a series of data filtering as is from the data collected to investigate and understand a phenomenon. In this method, the explanation of the phenomenon will be more descriptive. The data collection technique used in this study is document analysis. So, the author will look for several documents or literature such as journals and books to be sources of research data.[10]

3. Results and Discussion

3.1. Impact of Inflation on People's Purchasing Power

Inflation in countries is influenced by various factors that influence it. Inflation, which refers to the decline in the value of a country's currency in comparison to commodities such as gold or foreign currencies, needs to be kept stable at a minimum level. This economic phenomenon, including in the context of Indonesia, causes a general increase in the prices of goods and services. The impact is to encourage people to focus more on work than investing, because inflation has negative effects such as weak efficiency and productivity in production, increased capital costs, and uncertainty regarding future costs and income. Inflation can affect people's purchasing power and the economic stability of a country, so controlling inflation to keep it low is an important aspect of economic policy. Controlling the rate and level of inflation plays a vital role in macroeconomics. The success of controlling inflation is very important because the impact of inflation can affect people's welfare, especially when inflation is at a high and unstable level

[9]Sheffin, Steven M. (1989). *Rational Expectations*. New York: Cambrige University Press, p. 11
[10]Adlini dkk. (2022). Metode Penelitian Kualitatif Studi Pustaka. Artikel ini terbit di *Jurnal Pendidikan.* edisi 6(1), tahun 2022, p. 974-980.

resulting in the decline welfare experienced by the community.[11]Inflation needs to be controlled by both the central bank and the government. The central bank and the government must work together to suppress the inflation rate to be low and stable, in order to create equitable public welfare.

Economic growth is one of the important indicators in the development efforts and economic development in a country. In this case, it can improve the welfare of the people in a country at the level of per capita income. Therefore, economic growth can be used as a benchmark for the success of a country in terms of economic development. With economic growth, it can also be used to explain other macroeconomic matters, such as inflation rates, poverty rates, or unemployment rates.[12]

Most importantly, rising inflation rates can put significant pressure on people's purchasing power. As prices for goods and services continue to rise, individuals and households experience a higher cost of living. This impacts their ability to directly purchase goods and services with the same level of income as their current income. The groups most vulnerable to high inflation are those with fixed incomes, such as low-wage workers and retirees, who may have difficulty maintaining their standard of living.

In addition, high inflation rates create uncertainty among consumers. When prices spike suddenly, people tend to be more cautious in spending their money. This caution can lead to a decline in consumer spending, which is a key component of economic growth. In this scenario, people's purchasing power becomes a victim of economic uncertainty due to uncontrolled inflation rates. On the other hand, in some cases, moderate inflation rates can provide opportunities for economic growth. Controlled inflation can stimulate investment and consumption, as individuals and businesses feel confident that monetary policy is maintaining price stability. Thus, people's purchasing power can be maintained or even increased along with sustainable economic growth.

However, it should be noted that the impact of inflation on people's purchasing power is not only determined by the inflation rate itself, but also by the level of wage increases that may accompany inflation. If wages are unable to keep up with inflation, real purchasing power will decline. Therefore, minimum wage policies and maintaining a balance between wage growth and inflation are important factors in protecting people's purchasing power. Macroeconomic reviews must also consider the sectoral impact of inflation on people's purchasing power.

[11]Martanto, B., Tan, S., & Hidayat, M. S. (2021). *Analisis tingkat inflasi di Indonesia Tahun 1998-2020,* p. 26

[12]Hodijah, Siti, and Grace Patricia Angelina. "Analisis Pengaruh Ekspor Dan Impor Terhadap Pertumbuhan Ekonomi Di Indonesia." *Jurnal Manajemen Terapan dan Keuangan 10*, no. 01 (April 28, 2021): p. 53-62. accessed on 17 March 2025 at 10.23 wib https://doi.org/10.22437/jmk.v10i01.12512

Certain economic sectors may be more vulnerable to inflation than others, thus having a more significant impact on certain segments of the population. For example, a spike in fuel or food prices can put particular pressure on low-income economic groups, since these households usually allocate a large portion of their income to basic needs.

Inflation and economic growth are two things that are interrelated with each other. Keeping inflation low and stable will increase economic growth. This is because with low and stable inflation, economic activities will run well. Low and stable inflation will encourage entrepreneurs to increase their production. Price increases created by inflation will stimulate entrepreneurs to increase their production because the profits they expect will be greater. Increased production means an increase in the value of gross domestic product (GDP) which means it will increase economic growth.[13]

If the price increase or inflation is too high, it will have a negative impact on the economy. Price increases or inflation that are too high will make people who were initially able to meet their daily needs become unable to meet their needs as before because of the price increase.[14]The impact of this will create economic instability and result in declining economic growth.[15]

Inflation in Indonesia can have a negative impact on people's welfare, the economy, and the value of money. The impact of inflation on people's welfare People's purchasing power decreases, People have difficulty meeting their daily needs, People's standard of living worsens, Interest in saving decreases. The impact of inflation on the economy Economic growth is hampered, Income distribution worsens, Foreign exchange rates decline, Imports increase, Exports decline.[16]

The impact of inflation on the value of money

1) The value of money is continuously decreasing

2) People use savings and investments to meet their living needs.[17]

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[13] Sarbaini, & Nazaruddin. (2023). Pengaruh Kenaikan BBM Terhadap Laju Inflasi di Indonesia. *Jurnal Teknologi dan Manajemen Industri Terapan (JTMIT).* P.33

[14]Fadilla, A. S., & Purnamasari, A. (2021). Pengaruh Inflasi Terhadap Pertumbuhan Ekonomi Indonesia.*Ekonomica Sharia: Jurnal Pemikiran dan Pengembangan Ekonomi Syariah*, *7*(1), p. 17–28. www.bps.go.id,

[15]Wiriani, E., & Mukarramah. (2020). Pengaruh Inflasi dan Kurs terhadap Pertumbuhan Ekonomi Indonesia. JURNAL SAMUDRA EKONOMIKA, 4(1), p. 41–50.

[16]Dampak inflasi terhadap kesenjangan pendapatan dan daya beli. accessed on 17 March 2025 at 10.30 wib. https://journal.arimbi.or.id/index.php/Nuansa/article/download/1444/1693/6952

[17]6 Dampak dari Inflasi yang Tinggi Terhadap Nilai Uang. accessed on 17 March 2025 at 10.45 wib. https://kumparan.com/berita-bisnis/6-dampak-dari-inflasi-yang-tinggi-terhadap-besar-uang-23if9cjq1Ug

Inflation can be caused by more money circulating in society than is needed.

3.2. Government Efforts to Suppress Inflation in Indonesia

Inflation in Indonesia plays a significant role in influencing people's purchasing power, and a comprehensive macroeconomic review is essential to understand the dynamics of this relationship. Inflation, defined as a general and sustained increase in the prices of goods and services, is an important factor in shaping a country's macroeconomic conditions. Examining the relationship between inflation and people's purchasing power provides an overview of the challenges and opportunities facing the Indonesian economy.

one of the efforts that the government can make in increasing economic growth is by reviving export activities. In fact, it has become an obligation to support economic growth in a country. Through exports, the amount of production capacity in a country can increase. In addition, foreign exchange will arise from export activities carried out, which foreign exchange can be used as funds to import raw materials and capital goods that will increase added value in a country.[18]

To overcome inflation, Bank Indonesia can increase the benchmark interest rate. The increase in interest rates will increase the cost of borrowing for consumers, so that consumer spending activity will decrease. Moderate inflation can provide incentives for companies to innovate and improve efficiency. This can result in technological and productivity advances that in turn can strengthen long-term economic growth.[19]

Another policy that the Indonesian government can take is to reduce the amount of foreign debt and balance the amount of money in circulation with goods in circulation so as to reduce the high inflation rate. This policy was carried out during the Republic of Indonesia Serikat (RIS) era. The Syafruddin scissors policy was established by the Minister of Finance during the Hatta II Cabinet, namely Syafruddin Prawiranegara, through the Republic of Indonesia Serikat Financial Decree Number PU I on March 19, 1950. This policy was issued without harming the lower class people because the 5 guilder denomination and above were usually only owned by people from the middle to upper class. This policy was carried out by cutting the 5 guilder denomination and above into two parts. The left cutting is still held by the people who own the money where its value is only half of the previous money value and is still useful for use as a legal tender.

[18]Brand, P., Agatha, C., Tumbel, A., Soepeno, D., & Ekonomi dan Bisnis Jurusan Manajemen, F. (2019). Pengaruh Brand Image dan Electronic Word of Mouth terhadap Minat Beli Konsumen Oriflame di Manado. 7(1), p. 131–140.

[19] Kompas.com "7 Dampak Inflasi, Dampak Negatif dan Positif bagi Perekonomian", accessed on 17 March 2025 at 10.30 wib. https://money.kompas.com/read/2024/03/16/105450426/7-dampak-inflasi-dampak-negatif-dan-positive-bagi-per Ekonomian?page=all.

Meanwhile, the right cutting is given to the state to be exchanged as a bond with a money value of half the initial value and will be paid back to its owner with interest of three percent per year after thirty years. Syafruddin's scissors policy then succeeded in making the price of goods stable, strengthening the rupiah exchange rate and successfully increasing the income of the Republic of Indonesia government.[20]

4. Conclusion

Inflation in countries is influenced by various factors that influence it. Inflation, which refers to the decline in the value of a country's currency in comparison to commodities such as gold or foreign currencies, needs to be kept stable at a minimum level. This economic phenomenon, including in the context of Indonesia, causes a general increase in the prices of goods and services. The impact is to encourage people to focus more on work than investing, because inflation has negative effects such as weak efficiency and productivity in production, increased capital costs, and uncertainty regarding future costs and income. One of the efforts that the government can make to increase economic growth is to revive export activities. In fact, this has become an obligation to support economic growth in a country. Through exports, the amount of production capacity in a country can increase. In addition, foreign exchange will arise from the export activities carried out, which foreign exchange can be used as funds to import raw materials and capital goods that will increase added value in a country. One of the key findings is that global commodity price fluctuations are not only influenced by economic factors, such as global supply and demand, but also by geopolitical factors, climate change, and other unpredictable global events. In the context of the agricultural sector, changes in global commodity prices can have a double impact. While farmers can benefit when commodity prices rise, they can also be vulnerable to sudden price fluctuations. Adoption of innovative agricultural technologies and farmer protection policies can be relevant solutions to overcome this uncertainty.

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