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The Effect of Price, Public Purchasing Power And Consumption Level on Rice Commodity Inflation in Pangkalpinang City

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Abstract: The purpose of this study is to analyze the effect of price, purchasing power and consumption level on rice commodity inflation in Pangkalpinang City. Rice is a staple food in Indonesia, including in Pangkalpinang, so weakening prices and purchasing power can significantly affect consumption and inflation levels. The method in this study uses a quantitative method with secondary data sourced from the Central Statistics Agency (BPS) and other related agencies in Pangkalpinang City. Data analysis in this study uses regression analysis which aims to determine the relationship between price variables, purchasing power, consumption and inflation. The results of the study indicate that there is a significant influence between rice prices and people's purchasing power on rice consumption levels and inflation in Pangkalpinang. The results of this study are expected to be a reference for local governments and related parties in formulating effective policies to maintain price stability and public welfare, as well as mitigating the negative impacts of inflation.

Keywords: Price, Purchasing Power, Consumption, Inflation

INTRODUCTION

One of the most important economic indicators and often a major concern for both the government, business actors and the public is inflation. The definition of inflation is a condition where there is an increase in the price of goods and services in an economy in a certain period. This phenomenon is not a common thing but its impact greatly affects people's purchasing power, economic stability, and investment growth. So a deep understanding and periodic analysis of inflation and the factors that influence it are very necessary as material for formulating government policies to realize an effective economy.

In Indonesia, inflation has been quite volatile in recent decades. There are several factors that influence the rate of inflation, such as monetary policy, geopolitical conditions and global commodity prices. High inflation can have negative impacts, such as a decrease in people's purchasing power for basic necessities, increasing poverty rates and an uncertain investment climate. However, if the inflation rate is too low or called deflation, it will cause economic stagnation.

In a global context, various structural changes in the world economy such as digitalization and changes in consumption patterns have become increasingly complex issues

due to inflation. Fluctuations in inflation in one country can have an impact on other countries if interconnections between countries increase. Thus, in-depth research on inflation is important to be carried out so that the factors that cause it and its impacts can be managed and controlled.

The economic condition of a country also depends on the level of public consumption. Consumption is a component that plays an important role in a country's economy and has a significant contribution to Gross Domestic Product (GDP). Consumption patterns have also undergone a transformation that has an impact on the economy as a whole. This is due to increased purchasing power and changes in people's lifestyles.

The level of public consumption in Indonesia has experienced fluctuations over the past few years. This condition is influenced by several factors including economic growth, government policies and inflation. During the post-COVID-19 pandemic recovery period, many sectors experienced a surge in consumption accompanied by rising prices of goods and global economic uncertainty. A phenomenon that cannot be ignored is the change in consumption patterns such as the shift towards digital consumption.

Changes in consumption patterns have broader implications for the economy, not just for individuals and families. In formulating policies that support sustainable economic growth, it is important to understand the factors that influence consumption levels. Some of these factors include income levels, consumer behavior, unemployment and access to credit.

Another important indicator that reflects the economic condition and welfare of a country is the purchasing power of the community. High purchasing power indicates that the community has the ability to meet their needs, conversely low purchasing power can indicate more serious economic problems, such as poverty and an unstable economy. In Indonesia, the factors that affect people's purchasing power are very complex and diverse, such as unemployment rates, income levels, inflation and government policies.

Indonesia has experienced various economic dynamics in recent years, including fluctuations in the prices of goods and services, uneven economic growth, and the impact of global situations such as the COVID-19 pandemic. Changes in people's consumption patterns caused by the pandemic have further worsened purchasing power, especially for low-income people.

In Indonesia, the increase in the price of basic goods is an economic dynamic that is a major concern. High price increases can have an impact on people's purchasing power, which can affect stability and the economy. The phenomenon of high inflation and frequent price fluctuations has become a serious challenge for the government and society.

In Pangkalpinang City, this phenomenon is increasingly interesting to study. Based on the initial survey, it is seen that although the price of goods, especially staple commodities such as rice, has increased, there is still variation in the level of consumption in the community. Some households managed to maintain their rice consumption patterns, while others were forced to reduce the amount of consumption. This shows a significant influence between the price of rice, purchasing power, and community consumption behavior.

Based on this background, the purpose of writing this article is to build a hypothesis for further research with the following problem formulation: 1) How does the price of rice affect the level of public consumption in Pangkalpinang City?, 2) To what extent does the purchasing power of the public affect rice consumption in Pangkalpinang City ?, 3) Is there a relationship between rice price fluctuations and the inflation rate in Pangkalpinang City ?, 4) How is the interaction between price, purchasing power of the public and rice consumption in the context of inflation in Pangkalpinang City?, and 5) What are other factors that can affect the level of rice consumption besides price and purchasing power of the public?

METHOD

This study uses quantitative methods and uses secondary data sourced from the Central Statistics Agency (BPS) and other related agencies in Pangkalpinang City. To determine the relationship between price variables, purchasing power, consumption and inflation, regression analysis data is used. The Literature Review approach is carried out through the Literature Review method (library research) and Systematic Literature Review (SLR) which are analyzed qualitatively, and data sources come from online applications such as Google Scholar, Mendeley and various other online academic platforms.

RESULTS AND DISCUSSION

Based on the background, objectives, and methods that have been prepared, the research results in this article are as follows:

1. Definition and Basic Concepts

In the study of economics, demand for a good or service is greatly influenced by the price of the good or service itself. So in the theory of demand that is analyzed is the relationship between the demand for a good and the price of the good itself. While other factors are considered constant (*ceteris paribus*).

Price fluctuations occur very quickly when the supply and demand for food commodities are not balanced, especially rice. So to overcome this, a food price stabilization policy is needed. The increasing population in Indonesia has also increased the demand for basic necessities. This affects the price fluctuations of basic goods which contribute significantly to the rate of inflation in Indonesia. Demand that is too high is sometimes not comparable to supply so that the demand for basic necessities from producers is not met. This factor triggers price increases which have an impact on the rate of inflation.

Fluctuations in the prices of basic necessities are the biggest contributor to the inflation rate in Indonesia. With a large population, the demand for basic necessities is also increasing, where the supply of these goods is not enough to meet existing needs.

Rice is one of the commodities that plays a very important role in meeting the needs of society, especially in countries that make it a staple food. Here are some reasons why rice is so important:

- 1) **Main Food Source:** Rice is the main source of carbohydrates for the majority of the population, providing the energy needed for daily activities.
- 2) **Food Security:** Sufficient availability of rice can reduce the risk of starvation. Stable rice production contributes to national food security.
- 3) **Employment and Income:** Rice cultivation in the agricultural sector can provide employment for millions of farmers. So it can reduce poverty and have an impact on family income.
- 4) **Local Economy:** Economic growth in rural areas is increasingly advanced, able to encourage local markets and infrastructure development.
- 5) **Trade:** Plays a role in international trade. Rice-producing countries can export their surpluses so they can contribute to national income.
- 6) **Culture and Tradition:** Rice is a cultural tradition that is inherent in society, because it contains many meanings and is a symbol of good luck and fertility.
- 7) **Economic Diversification:** Rice is the basis for the development of derivative products, such as rice flour and processed foods that can increase added value and economic diversification.

2. Microeconomic Theory

Important concepts in economics that help explain how individuals or groups make decisions about purchasing goods and services are consumer behavior and the law of demand.

Consumer behavior refers to the actions of consumers in selecting, using and disposing of goods or services. Some factors that influence consumer behavior are:

- 1) Preferences and Tastes: Every consumer has different needs, wants and preferences.
- 2) Income: Income level greatly influences consumers' ability to obtain the goods and services they need.
- 3) Price: Price changes greatly influence the decision to purchase desired goods and services.
- 4) Advertising and Promotion: Marketing strategies that can attract consumer attention are advertising and promotion. This strategy aims to influence consumer desire to buy.
- 5) Social and Cultural Factors: The influence of the social environment, cultural norms, and the influence of friends or family also play a role in shaping consumer behavior.

The law of demand states that, *ceteris paribus* (assuming other factors are constant), the higher the price of a good, the lower the quantity demanded of that good and vice versa. In other words, there is a negative relationship between the price of a good and the quantity demanded. When prices increase, consumers tend to reduce the frequency of purchases. Conversely, when prices decrease, this condition will trigger an increase in demand.

3. Public Purchasing Power

People's purchasing power is the capacity and strength of people to spend money to meet the need for goods and services according to price developments and a certain time.

The continued decline in purchasing power indicates an increase in inflation caused by the inability of consumers to afford the ever-rising prices. The quantity of goods purchased is less than the previous period even though the price is the same.

The increase in inflation in Indonesia is an inevitable reality and has a significant impact on people's purchasing power. When inflation increases, fluctuations in the ability to buy goods and services are greatly felt by the community.

Factors that influence purchasing power include:

- 1) Income
The higher the income of the community, the higher the purchasing power of the desired goods and services.
- 2) Inflation
High inflation rates can reduce people's purchasing power, because the prices of goods and services increase faster than income.

People's purchasing power may decline and have a significant impact on rice consumption, which is a staple food in many countries. Some of the main impacts that may occur are as follows:

- 1) Reduction of Consumption
Consumers may reduce the amount of rice they buy due to decreasing purchasing power. So they will look for ways to save money by reducing food portions.

2) Transition to Substitute Products

Declining purchasing power has caused consumers to switch to cheaper substitute products, such as noodles, corn or tubers. This can have an impact on the demand for rice and can change people's food consumption patterns.

3) Increased Demand for Cheap Rice

Demand for cheaper or lower quality rice may increase as a result of the declining purchasing power situation. This may affect the overall rice market and price.

4) Impact on Farmers and Production

If there is a decrease in rice consumption, it will have an impact on the price decrease at the farmer level. If farmers do not get a decent price, this can reduce their incentive to produce rice, which in turn can disrupt future supplies.

5) Food Security Risks

A significant decline in rice consumption can affect food security. People who cannot afford enough rice can increase the risk of malnutrition and hunger, especially among vulnerable groups.

6) Changes in Food Patterns

Reduced rice consumption could force people to adapt to different eating patterns, potentially having long-term impacts on people's eating habits and health.

7) Social and Economic Impacts

It has the potential to cause social problems such as increasing poverty and social instability as a result of decreasing purchasing power and consumption of rice, because rice is an important part of everyday life.

4. Inflation and Food Commodities

There are many definitions of inflation in economics. Initially, the definition of inflation that was often used after World War II was a situation of excess demand for goods throughout the economy, according to AP Lehner. Inflation can be simply explained as a condition where there is an increase in the price level of goods and services that applies generally and is sustainable over a certain period of time.

Quoted from previous journals, inflation is a process of increasing prices of goods and services continuously or an economic condition that shows a tendency for the general price level to increase. It is called the general price level because the goods and services available in the market have a very diverse number and type. This condition causes most of the prices of these goods to tend to increase and trigger an increase in inflation.

Inflation is a general increase in the prices of goods and services that occurs continuously over a certain period of time. An increase in the price of only one or two commodities of goods and services is not considered inflation. However, if the increase has a wider impact on the increase in the prices of other commodities of goods and services, it can be said to be inflation. While the opposite of inflation is called deflation.

Review Relevant Articles

Based on articles obtained through *Google Scholar*, *Mendeley*, and *Dinasti Review*, using the keywords: Price, Purchasing Power, Consumption, Inflation, relevant articles can be summarized as in the following table below :

Table 1. Relevant Research Results

No	Author (Year)	Previous Research Results	Similarities With This Article	Differences With This Article	H
1	Octaviana H, Wahyu Adhi S, Amalia Nadifta U (2021)	Basic necessities such as shallots, rice, beef, and cooking oil have a significant impact with a negative coefficient on inflation, indicating deflation in the movement of food prices. Meanwhile, garlic, chicken, and granulated sugar have a positive effect on increasing inflation.	A significant increase in rice prices will contribute directly to rising food inflation.	The price of rice commodities and people's purchasing power have a significant influence on the inflation rate.	H3
2	Rizka Angelina Chintia, Rian Destiningsih (2022)	This study shows that the prices of rice and broiler chicken commodities have a significant impact on inflation in the long term.	The significant increase in rice prices will contribute directly to the increase in food inflation in Pangkalpinang City.	The price of rice has a direct influence on the level of consumption.	H1
3	Ahmad R, Rezki Akbar N, Iwan H, Afif Syarifudin Y, Dian May S (2023)	Fluctuations in people's purchasing power in Indonesia are significantly influenced by changes in the inflation rate, which contributes to changing people's ability to purchase goods and services.	Increased purchasing power can suppress the rate of inflation, conversely, decreased purchasing power can increase inflation indirectly.	People's purchasing power has a significant influence on the level of rice consumption in Pangkalpinang City, which has implications for fluctuations in the price of basic commodities.	H2
4	Ulin NA, Wahyu Hidayat R, Syamsul H (2021)	Household consumption has a significant and positive influence on economic growth	There is a positive relationship between the level of rice consumption and people's purchasing power. On the other hand, there is a negative relationship between the level of rice consumption and the price of rice.	This research is more micro in nature, namely analyzing consumer behavior regarding the relationship between price and purchasing power on the level of consumption and inflation of rice commodities in Pangkalpinang City.	H4

Source: Research Data

Based on the theoretical study and discussion, this article will include a Literature Review conducted by referring to related articles. Furthermore, this article will analyze the influence between variables and conclude the research based on the findings obtained:

1. The Influence of Rice Prices on Rice Commodity Inflation

Rice prices are an important component in calculating inflation, especially for inflation in food. When rice prices increase, inflation in rice commodities will also increase. This is due to the high role of rice commodities as the main food ingredient where the majority of people consume it. Thus, there is a positive relationship between rice prices and the inflation rate of rice commodities. A significant increase in rice prices will contribute directly to the increase in food inflation in Pangkalpinang City.

2. The Influence of Purchasing Power on Rice Commodity Inflation

People's purchasing power is also related to rice commodity inflation. When people's purchasing power increases, inflationary pressures can be reduced because people are able to absorb price increases without drastically reducing consumption. On the other hand, a decrease in purchasing power can indirectly increase inflation, especially if people switch to other commodities or when low purchasing power triggers tighter price controls. Therefore, there is a negative relationship between people's purchasing power and rice commodity inflation.

3. The Influence of Consumption Levels on Rice Commodity Inflation

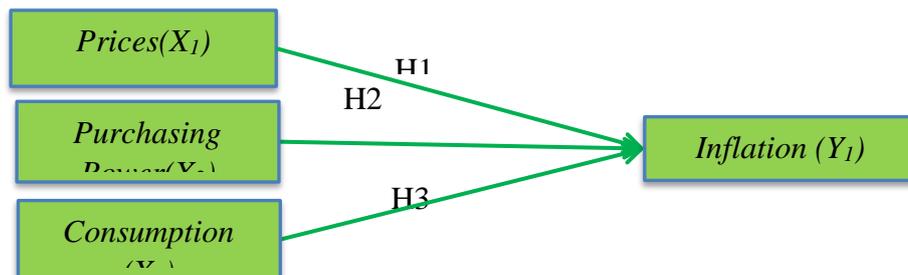
Public consumption of goods and services has a significant influence on inflation, because consumption is one of the main components of aggregate demand. When demand for goods and services increases, public consumption also increases. If production capacity is insufficient to meet consumer demand, price pressure will occur, driving inflation. Conversely, if demand for goods and services decreases, the level of consumption will also decrease. This can cause price decreases and if it continues in the long term, deflation will occur.

Consumption is the activity of using goods and services by individuals or households to fulfill their needs and desires.

According to data from the World Bank, household consumption levels contribute significantly to economic growth. Consumption is one of the main drivers of economic growth and functions as an indicator of community welfare. Household consumption also affects fluctuations in economic activity in a country. In Indonesia, household consumption has contributed more than 50% of total national income.

Conceptual Framework of Research

Based on the formulation of the problem, discussion and relevant research, a conceptual framework is prepared as follows:



Source: Research results

Figure 1. Conceptual Framework of Research

Based on Figure 1: Conceptual Framework of the Research above, it can be concluded that the variables of price, purchasing power and consumption level have an influence on rice commodity inflation. The description between the variables is as follows:

- a. Rice prices have a positive effect on the inflation rate of rice commodities.
- b. People's purchasing power has a negative effect on the inflation rate of rice commodities.
- c. The level of consumption has a significant effect on the inflation rate of rice commodities.

CONCLUSION

After discussing prices, purchasing power, consumption levels and inflation, it can be concluded that all these variables are interrelated and influence each other.

From this Literature Review, a conclusion can be drawn that:

1. Rice prices have an influence on Rice Commodity Inflation.
2. Purchasing power has an influence on rice commodity inflation.
3. Consumption levels have an influence on Rice Commodity Inflation.

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