Inflation and Its Influence of Household Livelihood in Mogadishu- Somalia

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Abstract

The main objectives of the research were to investigate the relationship between inflation and its influence on household. The population of this research was Mogadishu society as case study who was residence in Mogadishu. The population of this study is unknown and   the sample size of Mogadishu society was 120 people. Method of this study was survey the questionnaire was consist six items, the items of the research were divided in to sex parts namely power purchasing, commodity price, economic condition, unemployment, conflict of families, decrease of income. The result in this part of the project it discussed the research results and findings derived from questionnaire of the inflation and its influence of household in Somalia. The objectives of this study were to identify relationship between purchasing power of household livelihood, to investigate relationship between the commodity price in the market and influence of household, to explain the effect of economic condition on household. The most respondents were significantly agreed that there is positive relationship between inflation and its influence of household in Mogadishu, Somalia

INTRODUCTION

The three major explanations of inflation include fiscal, monetary and balance of payments aspects. While in the monetary aspect, inflation is considered to be due to an increase in money supply, in the fiscal aspect, budget deficits are the fundamental cause of inflation in countries with prolonged high inflation. However, the fiscal aspect is closely linked to monetary explanations of inflation since government deficits are often financed by money creation in developing countries. In the balance of payments aspect, emphasis is placed on the exchange rate. Simply, the collapse of exchange rate brings about inflation either through higher import prices and increase in inflationary expectations, which are often accommodated, or through an accelerated wage indexation mechanism. According to (al, 2008) The increase of inflation in global food price and commodity has received in recently increased in many countries in the world and has negative impact in economic and household livelihood

According to (Kejak, 2002) and (Suessmuth, 2006)Highly important and negative sign of inflation rate shows that there are enormous growth costs related with inflation, an confirmation supporting the findings by High inflation in Asia may increase the cost and risk of productive capital and may lead to misallocation of funds as argued by Paul et al.(1997). Inflationary finance may also be hence welfare and growth reducing as argued by (Motley, 1994)

Transaction cost theory (TCT) has become an increasingly important secure for the analysis of a wide range of strategic and organizational issues of significant importance to firms. In particular, the TCT has been employed in studying firms' restrictions, vertical integration decisions, the rationale for conducting an acquisition, the networks and other hybrid governance forms. The TC this extended its breath to strategic management and international business in seeking to explain how firms internationalize and the structural arrangements required to get better the chances of success. In fact, it is realistic to put forward that the TCT has become a enveloping theory in organizational studies

According to (Abdirahman B. M., Somali watch, 1980) the Somali shilling had suffered from large and continuous devaluations. These devaluations, in turn, added to the inflationary force, battered the purchasing power of money and caused a chaotic financial situation that, according to many observers, was the important factor contributing to the collapse of General Mohamed Siad Barre's government.

According (Abdirahman M. D., 1960/91)Central Bank of Somalia (CBS)was the authority legally responsible for the conduct of exchange rate policy. One of the bank's objectives, as written in its statutory law was to safeguard the external value of the Somali shilling despite this clear mandate, decisions regarding exchange rate policies were either assumed by the minister of finance, or the president. In practice, however, exchange rate changes were most of the time dictated by the International Monetary Fund, or the parallel market (black market).In Somali context, especially in Mogadishu some problems faced the society so that the study will investigate the influence of inflation on household livelihood.

The exchange rate is also important because it profoundly affects the standard of living of the population. In a small open economy like Somalia, where almost everything is imported, a depreciating currency raises the domestic prices of imported goods and thus reduces the purchasing power of money, and finally erodes the real income of the population, especially the poor people. .

The study has investigated the cost of living of household and the influence of inflation rate exists in

Mogadishu measured by percentage change in prices of commodity at a particular time. The inflation is constant increase general price of goods and service.

The researcher defines the theory which the study will be based. The researcher explains relationship between variables of the study how use of it.

Inflation is the general increase in price level of different commodities in the economy. It is subdivided into food inflation (escalating food prices) and non-food inflation i.e. rate of change in price of non-food items. However, this paper will concentrate on food price inflation (MAKAIKO, 2010)

However, the role of inflation and its influence of household livelihood are not defined. For that reason this study will investigate the challenge facing household livelihood, factors which caused the inflations and gab which needs to be solved in the study.

1) To find out purchasing power of household
2) To investigate the commodity price in the market and influence of household.
3) To find out the economic condition of household

LITERATUREREVIEW

According to (Selialia, 1995), this rising literature on inflation has come to be known as the political economy approach to macroeconomic strategy. These recent theories of inflation have changed attention away from traditional direct economic causes of inflation, such as money creation, towards political and institutional determinants of inflationary pressures. However, these theories have been condemned as they are theoretical and put emphasis almost entirely on industrial countries.

Moreover, al (al G. e., 1997) found evidence that the average rate of inflation was lower in countries with hanged exchange rate than in countries with more flexible rate. al. (al A. e., 1991) obtained similar results but note that many countries with pegged exchange rate regimes have experienced high rate of inflation as a result of inappropriate fiscal policies. Conversely, many of the countries with more flexible arrangement have obtained lower rates of inflation by adopting careful fiscal policies

According to (Professor, 2012) was of the view that inflation is generally used to distribute a situation of rapid, persistent and unacceptable high rises in general price level in an economy, resulting in general loss of purchasing power of the currency. According to him, inflation causes serious discomfort for consumers, investors, producers and the government.

The variables used include money supply and its lagged values, Real Gross Domestic Product (RGDP) and its lagged values, aggregate domestic credit to the economy and its lagged values, government expenditure and its lagged values. Others are industrial production index, the import price index and an official exchange rate in all, the models were estimated and the character of inflation seems to be well captured.

The expected relationship between inflation and returns to owners of equity would be valid if business firms were debtors and if the current interest rates on debt finance failed to reflect the future changes in the price level. According to Jhingan (1997), when there is inflation, most prices are raising, though some price rise faster than others.

Have shown from their studies that there is a relationship between inflation and rising prices. A positively in relation to changes in prices Therefore, in assessing the impact of inflation on the performance of stock prices of quoted companies; if there is a relationship, one should expect a positive association between inflation and the variation in stock prices.

Inflation:the inflation happens when the quantity demanded exceed the quantity supplied and particular price and time so Inflation is the general increase in price level of different commodities in the economy.

Inflation is caused by a combination of four factors.

➢ the supply of money goes up.
➢ the supply of goods goes down.
➢ Demand for money goes down.
➢ Demand for goods goes up

Household livelihood: the families which lives and eat together in one place

A group of people leap together by ties, relationship, or joint financial decision; who live together under single roof or compound, answerable to one person as the head and share the same eating arrangement (Jackson Kipng'etich Langat, (2009).

RESEARCH METHOD

Research Design

Research strategy refers to a plan that a researcher uses to bring about a study. There are two kinds of strategy; quantitative and qualitative approach. Quantitative method mainly follows deductive approach, works with natural science model, and has viewpoint toward social phenomena as external to social actors. Furthermore, the quantitative strategy works with numerical data. On the contrary, qualitative method follows inductive approach,

understands social action through eyes of social actors (how social actors interpret the world), and has subjectivism as ontological position (Limpanithiwat, 2010).

Research Population and Sampling Procedure

The target population of the study will be 120 as case study resident in Mogadishu, Somalia without concerning their position, experience, education and gender etc.

The researcher will use purposive sampling in order to desire the respondents that they believe to have the information concerning this study by using their own finding, and then the researcher will give out the questionnaire to them. In addition to, the researcher will choose purposive sampling because the researcher wants to get the key informants about the study, therefore; selecting the respondents is more useful for this study than the representativeness of the sample

Sample Size

According to(O.A. AKINBOADE, 2000) the sample size takes is 120 so the researcher agree to this sample.

According to (Limpanithiwat K. , Relationship of Inflation and Stock Price in Thailand, 2010) the sample size takes is 121 but the researcher did not to this sample.

The total population of this study will be and according to Slovene's formula, the sample size of this study will be 120.The population is unknown

Table 3.1: Showing Categories of Respondents & sample size

Category of respondents	Population	Sample size
1)Exchanger	25	25
2)Families	15	15
3)Shops	20	20
4)Stores	20	20
5)Workers	28	28
6)Other Business	12	12
Total	120	120

RESULTS

Demographic Information

The data presented above table 4.1 indicates that the gender distribution was 62.5.0% was male and 37.5.0% female. Indicates on the table 4.2, 92.5% of the respondents are at the age of 20-39; 7.5% of the respondents are at the age of 40-59. Indicates on the table 4.3 the majority of the respondents said they held high school certificate (18.3% each), 62.5% of respondents were held; bachelor 19.2% Master degree. The data presented above table 4.1 indicates that the gender distribution was 62.5.0% was male and 37.5.0% female. Indicates on the table 4.2, 92.5% of the respondents are at the age of 20-39; 7.5% of the respondents are at the age of 40-59. Indicates on the table 4.3 the majority of the respondents said they held high school certificate (18.3% each), 62.5% of respondents were held; bachelor 19.2% Master degree**.**

Table: 4.1 Profile of Respondent

Category	Frequency	Percentage %
Sex		
Male	75	62.5
Female	45	37.5
Total	**120**	**100**
Age		
20-39	111	92.5
40-59	9	7.5
Total	**120**	**100**

Table: 4.2 Education of Respondent

Educational Qualifications	Frequency	Percentage %
High school	22	18.3
Bachelors	75	62.5
Masters	23	19.2
Total	**120**	**100**

TABLE 4.3 VARIABLES OF DESCRIPTIVE STATISTICS

No. Variables	Mean	Interpretation
Power of purchasing		
1. Power of purchasing differentiates among the income of household	3.33	Very High
2. Power purchasing of household depends on the currency fluctuation in the market	3.14	High
3. Power purchasing indicates the consumption growth and of household.	3.00	High
4. Purchasing power should be possible to purchase the same basket of goods and services anywhere in the Mogadishu	2.85	High
Grand mean	**3.08**	**High**

Power purchasing Results in table 4.4 indicate that the extent of differentiates among the income of household is generally high and this is indicated by the overall mean (overall mean=3.08), this implies differentiates among the income of household in Mogadishu, Somalia.

No. Commodity price	Mean	Interpretation
1. Commodities price in the market Are important to the household s' economy	3.24	Very High
2. As the world becomes increasingly connected By technology, the international commodities Market is also growing in volume and value	3.17	Very High
3. Exchange rate movements as a tool for Predicting commodity price movements & Utilize the house hold	2.93	High
4. When market participants foresee a commodity Price shock, their expectations will be priced Into the current exchange rate, because of its Anticipated impact on future exchange rate values	2.97	High .
Grand mean	**3.08**	High

Commodity price - Results in table 4.4 indicate that the extent of Commodity price in the market is important to the household s' economy and generally high, this is indicated by the overall mean (overall mean=3.24), this implies importance of household s' economy in Mogadishu, Somalia

No. Economic condition	Mean	Interpretation
1. A good economic condition of house hold Improves the style of household	3.38	Very High
2. A good economic condition of household Increases social cultures decreases Unemployment rate	2.85	High
3. A good economic condition shows On political stability in the county And helps the household	2.85	High
4. Lack of well economic conditions cause Instability, unemployment and anarchy	3.21	Very High
Grand mean	**3.09**	**High**

Economic conditions- Results in table 4.4 indicate that the extent of A good economic condition of house hold improves the style of household and generally high, this is indicated by the overall mean (overall mean=3.24), this implies importance of A good economic condition of house hold improves the style of household in Mogadishu, Somalia

DISCUSSION

To find out the extent of inflation and its influence of household livelihood in Mogadishu

The first objective of this study was to determine the level of inflation in Mogadishu. Data analysis and interpretation revealed following findings under the objectives. Based on analysis of chapter four, majority of respondents reported that inflation contributed decreasing of power of purchasing of the people, their lifestyle and increasing the conflict of the families. In addition to the economic conditions are unstable that brings to

reduce the power purchasing of the people.

According to (al A. e., 2008/9), High and rising prices of food merchandise and products such as maize, rice, Cloths, beans, Electronics and Meat have smashed food security (accessibility and affordability), propagated malnutrition, and famine and threatened the livelihood of most vulnerable poor households by eroding their limited purchasing power. In other words, food inflation has had amazing glum impacts of achieving food poverty that triggers household food insecurity and hunger. High food inflation reduces individual's purchasing power of food and it has allocation effect which favors non-poor more than the poor masses in low income countries.

CONCLUSION

This study investigated the Inflation and its influence of Household livelihood. It was intended to determine relationship between inflation and Household livelihood in Mogadishu, Somalia.

The results obtained in this study showed that level of inflation in Mogadishu, Somalia is high. This interprets that the inflation is high showed the respondents of the questionnaire in this study

This was the conclusion for the level of economic condition is satisfactory to most of people. This implies that inflation play a vital role for reducing the economic growth by providing the people.

Finally, the finding of the study showed that there is a significant relationship between inflation and household in Mogadishu, Somalia as also literature showed that relationship according to (Wanningen, 2007) Inflation increases and decreases affect the pension fund investment portfolio.

Assuming real rates being constant, increasing inflation rates cause nominal interest rates to go up. Furthermore an inflation increase results in a decrease in power of purchasing and high price of commodity.

RECOMMENDATION

Based on the result in this study, the researcher provided a summary of the study's recommendations based on the three key objectives and following recommendations have been suggested

1. The entrepreneurs who control the exchange rate to reduce the fluctuation of the money, support and development small businesses' growth,
2. The household themselves should encourage to how to reduce the fluctuation of exchange rate of the money and also Manage their resource and make commitments to ensure stability of Somali shilling .
3. The government should set rules and regulations which control exchange rate, and also encourage financial institutions should set accessibility in collaboration with small businesses and engaging in increasing the vale Somali Shilling. This study recommends that finance institutions, entrepreneurs government, families and all people who live in Mogadishu to collaborate with each other in order to reduce inflation which jeopardize Somali economy.

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