Perception of Inflation and Effect of Inflation on the Salariat in Ethiopia

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Abstract
Understanding the gap between perceived and reported inflation have various implications both for the policy makers and the general public, since its divergence can: undermine the official statics credibility, erode the allocative efficiency of price system and influence future expectation of prices (Del Giovane et.al, 2008). Similarly the rich are better able to protect themselves against, or benefit from inflation than are the poor is a long established argument and was analyzed using data obtained from official sources. On the other hand economists like Stanley fisher, Martin Ravalion and Robert .J. Shiller try to capture the effect of inflation on the poor in an indirect way using survey on how the poor was concerned and dislike inflation. This paper also tries to capture the perception of inflation of the salariat and its effect using an indirect way from survey of 300 salariat group from different parts of Ethiopia.   In Ethiopia since the economy was not indexed and inflation was highly persistence in the past ten or more years the salariat group are highly affected. For example when we see the nominal income of those groups it was increased only 74% from 2003 to 2013 whereas average yearly cumulated inflation in the same years was increased by about 176%. Therefore this paper also tries to capture their perception and effects of those highly affected group of the society.   A questioner survey of 300 people was conducted and finds that sex and age have made no difference on inflation perception whereas income, occupation, and others have made differences among people on inflation perception. Similarly people relatively with less income are more concerned about inflation than relatively higher income.
Keywords: inflation perception, concern on inflation, salariat, Ethiopia

Introduction
1.1.   Inflation perception of the salariat
Most economists dealing with empirical studies on macroeconomic variables use officially released data for their models. However, there are evidences that show that, since there is information asymmetry and uncertainty, people's knowledge and perception on those macroeconomic variables are different from those official data. For this reason economists rationality assumption on individuals in making their decision and expectation formation is somewhat far from truth especially for developing countries like Ethiopia where information asymmetry and uncertainty in the economy is a norm.   On the other hand macroeconomic theory implies that expectations about future macroeconomic variables like inflation have their own effect on peoples and firms' decisions for investment, saving and consumption Therefore understanding how expectation is formed is crucial.

Benford and Driver (2008) based on the Bank of England Inflation Attitudes Survey that asks households about how they form their inflation expectations found that more than 40% of households form their expectation on their perception of current inflation more than other variables like interest rates, the central bank policy target and media reports.

There are various reasons why analyzing consumers' perception of inflation is important for both the public and policy makers. First, to know consumers' perception of inflation how it matches to the measured inflation rate. Second, a prolonged divergence between the measured inflation rate and perceived inflation would necessarily undermine the reputation of the official statistics. The divergence between measured and individuals' perceptions of inflation raises important policy questions. For example van der Klaauw et al. (2008), argued that, if individuals have biased attitude about inflation, this can seriously undermine the central bank's credibility. Furthermore, in the case of money illusion, the divergence between perceived and measured inflation may lead to distortions in bargaining if individuals misperceive their actual real purchasing power. Therefore in order to assess the effectiveness of policy instruments suggested by various macroeconomic models, it is thus necessary to understand how people form perceptions about inflation and how these perceptions influence individual behavior.

A number of studies try to investigate the factors that are responsible for formation of inflation perception. For example Del Giovane et al. (2008) conducted a detailed survey for Italian consumers in 2006 and found a strong impact of socioeconomic factors on inflation perceptions. On the other hand Jonung (1981)

noted that inflation perceptions in Sweden differ significantly between genders and consequently in a recent study, Jonung and Conflitti (2008) find there are differences in inflation perception between age, gender, income, occupational and regional groups

The Prospect Theory which was developed by Malmendier and Nagel, (2011), served as an alternative consumer's decision theory under risk and uncertainty. According to this theory individuals memorize price changes and weigh up them against a reference price, where higher prices are perceived as losses and lower prices are perceived as gains and price increases are perceived more strongly than price decreases. On the other hand, Brachinger (2006), developed the "index of perceived inflation" based on the three basic hypotheses of the prospect theory of Tversky and Kahneman (1973). This theory distinguished that price changes of more frequently than price changes of less frequently purchased goods are weighted more by consumers and it is assumed that consumers weight price increases more than price decreases.

1.2. Inflation and the fixed income group

The rich are better able to protect themselves against, or benefit from inflation than are the poor is a long established argument. In particular, the rich are likely to have better access to other instruments that can protect themselves from effects of inflation, while the (small) portfolios of the poor are likely to have a larger share of cash (Fisher and easterly,2000). The poor may also depend more than the rich on pre-determined income that is not fully indexed to inflation. Among them, the public service employees, elderly poor, and pension earners where their income is not fully indexed therefore inflation will directly reduce their real incomes. Similarly subsidies or transfers payments may also not be fully indexed. However, these arguments may not be significant due to several reasons therefore this can be solved through an empirical study, and the answer may vary among economies. Therefore this paper also tries to investigate whether the effect of inflation differs among different fixed income groups in Ethiopia by using a survey of individuals from different regions.

In Ethiopia Inflation is also very much dependent upon people's expectation. These expectations are somewhat caused by, economic factors, inflation uncertainty as well as socio-economic factors and people's perception. Therefore understanding of how people form their perception and expectation is equally important to design fiscal and monetary policy. Similarly Ethiopia experiences higher inflation than any other African country next to Zimbabwe in the past 10 years especially from 2003 onwards. And this high inflation hurts the fixed income group especially the public employees where its nominal income increased only 74% from 2003-2013 whereas average total inflation has increased 176.436% at the same time. As income of the public employees is not indexed to inflation and the tax base is also not revised where the income tax allowed for exemptions is only 150 Ethiopian birr or nearly 7.5 dollar; the living standard of the public employees is deteriorated from time to time both due to inflation and higher income tax. Therefore analyzing the concern of the public employees on inflation and its effect is important. This paper tries to address those issues, based on survey conducted in Ethiopia fixed income groups from four regions and the capital city.

1.3. Data on perception of inflation

In order to capture what factors influence individual inflation perception formation behavior the paper is based on structured survey through questionnaires conducted on a representative of 300 samples from the four main regions and the capital city of Ethiopia. Most researchers captured Inflation by asking households: 'How do you think that consumer prices have developed over the last 12 months? Based on this question respondents are expected to give their opinion using likert scale starting from 'Risen a lot, risen moderately, risen slightly, stayed about the same, and fallen".

Based on the literature, past studies and the countries situation the researcher identifies various factors that can have effect on inflation perception of the respondents. The questions which are included in the survey are categorized as follows:

1. **Demographic factors**: in order capture if there is relationship between demographic factors and inflation perception the survey collects information on age, sex, education and employment condition.
2. **Inflation knowledge**: regarding inflation knowledge the survey designs various questions such as:
   - If respondents follow the media about inflation
   - The meaning of inflation
   - If they confuse about inflation
   - If measured and reported and their experience on inflation of respondents diverge
   i. **Respondents psychology**: in this case the survey includes the following questions:
      - Which product usually buy
      - Frequency of purchase
      - Which product price do you assume its price increase highly
      - Either any good you ever perceive that its price decrease
   ii. **Economic situation:** in this category the following questions were included:

- Monthly income
- Asked if they pay rent and its share on the overall household income
- Number of members of the household
- Number of members of the household earn income
- How they meet their monthly expenditure considering their income

iii.   **Respondents behavior:** consumer behavior is analyzed based on two types of goods:

a) **Food:** due to high frequency of purchase and various retailers the questions included are:
- Type of retailers typically you buy
- Do you change retailer due to price increase
- If not what was the reason for your loyalty

b) **Durables :** since they are examples of purchase at low frequency the questions designed to address this are:
- Do you buy durable goods in the last five years
- If yes how many shops do you visit to compare prices

1.4.   Model on perception of inflation

Using qualitative response multivariate analysis, the paper tries to capture the relationship between the salariats' individual perception and the factors that are responsible for formation of inflation perception. The model estimates using an ordered probit model adopted from Del Giovani et.al,(2008) and its form will be:

$$P (Y_j = X) = F (b_1 Z_{ij} + --- + b_n Z_{nj}) \text{---} 1$$

Where:
- F is the cumulative function which assume to be normally distributed
- Y_i is a response variable ordered in likert scale takes the value from 1 to 5 depending on their Perception of inflation ranging from rise a lot to fall.
- $P(Y_i =X)$ represents the probability that the individuals j's inflation perception are equal to X (X= 1,2,3,4,5)
- And Z_{ji} represents a set of n characteristics of the individual j, which might influence his perception of inflation.

1.5.   Data on effect of inflation

In this paper, the effect of inflation on the fixed income group was examined using the results of a survey of 300 individuals in 4 major regions and the capital city of Ethiopia. Respondents to the survey from all regions and the capital city were classified according to their income and education level. The survey question on which focus on inflation concern is:

> *"Here is a list of things people have concerned about today. Would you read over the list and then tell me which 2 or 3 you personally are most concerned about today," (Fischer and Easterly, 2000).*

The lists of things which are presented in the choice of concern are: political, social and economic. The political concerns included in the list were democracy, good governance, political participation, free press and human rights are some of them. The social concerns include in the choice are, theft, corruption, civil unrest, quality of social service and gender inequality. And the economic concern includes: unemployment, inflation, low salary, high tax rate, shortage of consumption and poverty". There were 16 choices and respondents could also say "other, none of these, doesn't know".

I define a dummy variable that takes the value 1 if people mention "inflation" among the top   3 concerns), and 0 otherwise. The variables that can be assumed to have effect to rank inflation among three concerns would be demographic variables like age, education and occupation, and an income question classify respondents in one of categories: less 1000, 1000-2000, 2001-3000, 3001-4000, 4001-5000, and above 5000. The paper defines dummy variables for each category that take the value 1 if the respondents classify in that category and zero otherwise. Similarly the education question is classified respondents on the following categories: "primary, secondary and tertiary. Again I code three dummy variables for each category. We will also include regional dummies in our regressions.

1.6.   The model on effect of inflation on the poor

Using a binary qualitative response probit model the paper tries to capture the effect of inflation on the fixed income group, with the dependent variable equal to 1 if inflation is cited as among the top two or three national concerns otherwise 0. With independent variables: income; and education. The paper also performs robustness checks; by splitting the sample between regions and also including age and occupational groups. The six age groups below 20 (the omitted category), 21-30, 31-40, 41-50, 51-60, and 60 and above. The occupational categories are causal worker (the omitted category), public sector employed, private sector employed and other employment.

2. Result

2.1. Perception of inflation

According to survey as indicated in table 1 below majority of the respondents 152(50.66%) responded that inflation in the last 12 months increased highly whereas 19.66% , 19% noted that inflation increased moderately and slightly respectively. On the other hand minority of the respondents about 10.66% responded inflation has fallen in the last two months.

Table 1: respondent's perception of inflation

Response	Frequency			Percentage		
	Male	Female	Total	Male	Female	Total
Increase slightly	83	69	152	27.66	23	50.66%
Increase moderately	29	30	59	9.66	10	19.66%
Increase slightly	28	29	57	9.33	9.66	19%
Fall	16	16	32	5.33	5.33	10.66%

Source: own survey 2014/14

The quantitative calculation of perceived inflation and expectation of inflation using the balance stastics is 30% and 21% respectively. When we compared those values with officially measured and predicted inflation by the national statistical agency which is 18% for measured inflation and 9.8% percent for the expected inflation highly diverge from the perception and expectation of inflation by about 12 and 11.2 percent. This can show that both the perceived and expected inflation are higher than that of the official one and can result to affect people's decision on investment, saving and lead consumers and traders to hoard goods in the expectation that future prices of goods will increase.

Similarly when we analyze with respect to gender there is no much difference between the age groups as we can observe from table 1 above it was 27.66% versus 23 nearly it resembles the same with only 4.66% of males perceive high inflation than females.

2.2 Factors that influence perception

2.2.1. Perception and demographic factors

As it was indicated above the public's official estimates of inflation and household's perception of inflation diverge by about 12% and at about 11.2% on expectation of inflation. Those significant differences are attributed to some demographic characteristics of the respondents. For example People with high professional career perceive less than lower professional career, respondents with middle age perceive highly than respondents with lower age and people with relatively more education perceive less than with low education.

When we see those variables independently researches in Europe and America found that females perceive high inflation than males whereas in my study as indicated in the table below shows that there is no much significant difference between men and women. The reason for this to happen is as in the case of Europe and America as many researchers noted that women are responsible for higher share of the shopping, and therefore are in a better position to evaluate and predict price behavior. Where as in the Ethiopian case since, most women are dependent on the income of their husbands they may not perceive much on price increase.

Table one: demography and perception

perce	Coef.	P>z
Male omitted variable		
female	0.1983	0.176
Age below 20 omitted variable		
21-30	0.058337	0.871
31-40 years	0.231697	0.502
Age 31-40	0.360873	0.304
Age 41-50	0.734316	0.039
Age above 50	0.144407	0.74
Primary education omitted variable		
secondary	-1.127117	0.001
Teritiar	-2.427204	0
Casual employee omitted variable		
private	-0.884497	0
civil service	1.222492	0
other	-2.073953	0

The only age categories which have higher inflation perception is the age group 41-50 where as in the other age groups there is no significant difference in their inflation perception. Therefore we can conclude that with the

exception of age category 41-50 age difference do not have any influence on inflation perception in Ethiopia. On the other hand as we can see from table one above education has a significant effect on formation of inflation perception where, as level of education increases the perception of inflation decreases these findings also correspond with finding of others on European inflation perception. The other variable which has a significant influence on formation of inflation perception is the employment condition of respondents where casual workers perceive more than private and other employees such as NGO are whereas civil service sector employees perceive more than even the casual workers. This may be because as we analyze the trends of inflation and the growth of wages of civil service employees it has about 100% percent divergence where inflation grows more than their wage

Conclusion drawn from this research is that the large gap between civil servants perceptions of inflation and consumers price index measures of inflation is possibly caused by difference in the market basket people have in mind compared to what the official statistics considered as a consumption basket.

2.2.2. Inflation knowledge and perception of inflation

In this regard the paper tries to capture inflation knowledge whether: the respondents follow the media by an assumption those who follow the media have better knowledge on inflation, can the respondents differentiate between inflation and price level , or respondents believe their inflation experience is different or similar to the reported inflation by the country tactical agency?

Table 2: inflation knowledge and perception

perception	Coef.	P>z
Follow media	0.26948	0.059
confuse	-0.46068	0.001
repexp	-0.14341	0.444
Steady increase in av.price omitted		
unexpeaveinf	0.242318	0.211
Incr av.food	0.46274	0.046
unexpeincf~d	-0.38787	0.083

From the analysis using ordered probit regression those who follow the media have relatively significantly higher inflation perception than those who do not follow the media by about 26%. On the other hand those respondents who confuse on the meaning of inflation have lower perception than those who do not confuse by its meaning, this is somewhat contrasting result with the assumption of those who do not confuse have better knowledge and their perception would be expected to be lower.

Similarly those respondents who define inflation as unexpected increase in only food price have a significant difference where their perception is higher by about 46% with those who define inflation correctly. However the respondent perception on the difference between their experience on inflation and the way government measure and report inflation have no significant influence on the respondents formation of inflation perception.

2.2.3. Psychology and perception

For the analysis of the psychology of respondents the paper employs question related to purchase frequency, respondents which item do they frequently buy, direction of price change and capture their influence on perceived inflation. In this case from the descriptive analysis we can see that 92(30.66%) of the respondents whose purchase frequency is twice a month followed by both in a month and on weekly basis each have respondents 69(23%) and at last 39 persons (13%) purchase twice a week. On the other hand out of the total respondents 181(60.33%) who typically buy food, followed by others such as health, education and others with frequency of 82(27.33%) and 37(12.33%) who buy durables. When respondents are asked which good do you perceive whose price is increased majority or 214(71.33%) argued that food price was increased highly and this is in line with the prospect theory which states that people perceive more for the increase in price where they typically buy(60.33% typically buy food). Regarding the question whether they perceive any good whose price decreased in the last five years, only 41(13.66%) say yes and this also in line with the prospect theory where people perceive for price increase more than price decrease.

Table three inflation perception and psychology

perce	Coef.	P>z
Purchase in two month is omitted		
month	-0.14121	0.575
twimonthly	-0.06464	0.789
weeklyp	-0.07267	0.773
twiweekly	-0.16782	0.545
Purchasing food Is omitted		
durableg	-0.191741	0.368
Other buy	-0.385937	0.014
High food price increase is omited		
highdubs	-0.810189	0
highlyother	-0.489856	0.038
fall	0.006487	0.974

While analysis of those questions using the ordered probit model the result resembles somewhat different from that of descriptive analysis. In this analysis the purchase frequency does not create any significant difference among different purchase habits of the respondents. Similarly those who purchase durable goods frequently did not have any significant difference with those who frequently purchase food. However those persons who purchase frequently other goods have less perception those who purchase food frequently, since food is more frequently purchased than non-food, the finding is in line with the finding reported above on the relation between purchase frequency and perceived inflation. The data show the expected difference between inflation perception for food items is higher for food items than for non-food items with negative coefficients for the non food items which means less perception for non food than food even though the coefficient of durable goods is insignificant

In the case of direction of Price Change those people who perceive that in the last five years the price of durable goods and other goods increase more highly than other goods have lower average inflation perception than that of perceive food price increase highly.

2.3.4. Economic conditions

As economic theories and empirical studies show that, high-income earners tend to perceive and expect lower inflation rates than low- income earners. To test this in the case of Ethiopian salariat group of individuals the paper raises questions and asks respondents to give their opinion. The questions which are addressed here are; income of the respondents, the number of people who live within the household, number of members of the household who earn income and if the respondents pay rent where some of them.   Perception of larger inflation than the countries official rate may differ across households which are different not only in their demographic characteristic, inflation knowledge and psychology but also due to factors that affect individual economic condition such as income; number of dependents and their diversity of income.

Table 4: income group by family members

Income group	Family members			
	2	3	4	5
1000-2000	16	22	27	17
2001-3000	9	18	21	22
3001-4000	8	15	19	22
4001-5000	5	8	3	5
Above 5000	-	4	3	2

According to table 4 above only 43(14.33%) of the respondents earn less than 1000 Ethiopian birr or nearly 50 USD per month. On the other hand the number of households which earn income 1000-2000 ETB are around 90(30%) of the respondents of which 16 of them have 2 family members, 22, with 3 family members, 27, with 4 family members and 17 of the have 17 family members. As we can observe from the table the number of families tends to decrease as income increases, therefore this may be one reason for the divergence between the perceived and official rate of inflation.

Table 5: income and perception regression result

perception	coff	P >z
Income below 1000 is omitted		
1001-2000	-0.17309	0.628
2001-3000	-1.635165	0
3001-4000	-4.599141	0
4001- 5000	-6.716725	0
Above 5000	-11.38727	0.955
Pay rent	0.48688	0.005
only single member in household omitted		
only2	1.11914	0.015
only3	1.18444	0.006
only4	1.32106	0.002
morethan5	1.00627	0.022
Only earn one Is omitted		
earn2	0.214743	0.259
earn3	1.144959	0
earn4	0.047509	0.97

As we have seen from the above table there is no significant difference between income group less than 1000 ETB and income group 1001-2000 on the perception of inflation whereas when we observe the other income groups inflation perceptions tends to decrease as income increases except for income group above 5000 ETB. The reason for income group 5000 is not significant is that since the numbers of respondents' falls in this income group are only 9(3%) this may create an outlier problem. The other variable of interest is paying house rent, in this case as it have been shown in the above table respondent who pay rent have a significant difference with those who did not pay rent where those who pay rent perceive 48.68% higher than those who do not pay. Similarly the perception of high inflation increases as the number of members of the households increases and decreases as the number of households which earn income increases. The only exception is that there is no much significant difference between household who earn income one and two members of the household. The possible reason for the increase in high perception of inflation as member of the household increases is due to the fact that the available income is distributed among the household members and the per capita income decreases as members of the households increase.

Other reasons responsible for perception of inflation related to income may be behaviour of prices which are not included in the consumer basket and the change in nominal income in comparison to inflation (Del Govani etal). In the Ethiopian case when see the expense of household rent in relation to income of the fixed income group it is nearly 50% whereas in calculating the inflation rate household rent for house was not given vital weight. Similarly when we compare the change in nominal income of fixed income group and inflation it diverges by about 100%.

2.3.5. Respondent behaviour and perception

Table 6: respondent's behaviour and perception

Perce	Coef.	P>z
Visit only one retailer omitted variable		
ret2	-0.75572	0.003
morthan2	-1.50051	0
Not rememb	-1.46353	0
Traditional market is omitted variable		
supermarket	-0.949614	0
largeretail	-1.247187	0
villagemarkt	0.01081	0.955
change	0.288202	0.138
buydurb	1.141832	0
Tigray Is omitted variable		
amhara	-0.27742	0.226
orom	0.071318	0.748
south	-0.0352	0.883
AA	0.072684	0.751

As the table above indicates the perception of inflation tends to decrease with respondent behaviour

where if their visit to a number of retailers increases to compare prices. On the other hand when see the type of market where respondents purchase, those respondents who purchase from traditional market and village market have high inflation perception than that of who purchase from supermarkets and large retailers, this is because the available market for the relatively poor are the traditional and village markets. In developed countries case durable goods prices show a sign of decrease because of technical change (Del Govani et.al) where as in the Ethiopian case the price of durable goods have been increasing from time. The possible reason for this is because Ethiopia imports much of its durable goods and experiences a shortage of foreign exchange and its currency was devaluated from time to time the price of durable goods increase from time to time. In line with this the finding also confirms that those who purchase durable goods in last five years have high perception of inflation than those who ddi not purchase. Similarly the paper tries to capture if there is a difference between different regions of Ethiopia in the perception of inflation. Bu the result shows that there is no significant difference among regions.

2.3. Result on effect of inflation on fixed income group

The aim of this analysis is to capture in an indirect way the issue of whether inflation is more of a problem for the poor than for the rich by asking if inflation is in the top priority concern of the poor.

Table 7: concern and inflation

concern	Coef.	P>z
Primary is omitted group		
secondary	-5.76123	0.977
Teritiar	-6.17157	0.975
Income < 1000 omitted		
1000 - 2000	-2.664711	0
2001-3000	-1.948816	0
3001-4000	0.282123	0.291
_cons	5.440916	0.978

The result shows that inflation is regarded as more of a problem by the relatively poor than it is by the relatively non-poor, this because as we have seen in the above table the income group 1000- 2000 and 2001-3000 are less concerned than those of income group less than 1000. However income group above 3000 is not significant this may be due to the reason that most of the respondents fall with income group less than 3000 and this may create a outlier problem in our regression.And as (Fisher and easterly,2000) conclude that we can also infer that that inflation appears to reduce the relative income of the poor especially the salariat. Similarly as Cardoso (1992) finds that higher inflation is associated with lower real wages in a panel of seven Latin American countries the same is true in Ethiopia because the nominal wage from 2003 to 2013 has increased only 74% where as inflation is surge by 174%.. According to Easterly et.al the poor are less educated, and there may be an independent effect of inflation's impact on the uneducated. But our result did not confirm this explanation because in Ethiopian most of the uneducated or less educated persons are employed as casual workers or employed in the private sector with better wage and the relatively educated persons are employed at civil service and their salaries are almost stagnant and not indexed to inflation therefore there is no significant difference in concern of inflation between less educated and educated persons.

2.3.1. Robustness checks

The robustness check was done by including regional dummies, age and occupational groups

Table 8: robustness check

concern	Coef.	P>z
Male omitted varaiabl		
sex	-0.22961	0.374
below 20 is omitted variable		
21-30	1.178034	0.062
31-40	0.992625	0.1
41-50	-0.03057	0.958
51-60	0.051917	0.931
Above 60	-0.17947	0.793
Causal worker is omitted		
private	-0.57165	0.056
Civil service	1.71791	0.002
other	-2.23207	0
Primary is omitted variable		
secondary	-5.47626	0.98
Teritiar	-6.28501	0.977
Income 1 is omitted variable		
income_2	2.424149	0
income_3	2.315749	0
income_4	0.381668	0.298
_cons	5.598793	0.979

The results on poverty and education when we include age group and occupational dummies make no difference on education and are insignificant as before inclusion. The concern of the poor and very poor are still insignificantly related to their level of education. The occupational group most concerned with inflation is the civil service employee followed by casual workers. This supports that the finding that civil servants who are more affect by inflation are more concerned about inflation in Ethiopia.

The paper also tried to include gender dummy. As it was in the perception of inflation of male and female had no significant difference in Ethiopia. This result also gets no significant difference in the concern of inflation. The other variable which is included for the purpose of robustness chuck is regional dummies but the result of the regression shows that there is no significant difference between regions in inflation concern.

3.   Concluding remarks

The study tries to examine the perception of inflation and the effect of inflation on the salariat through survey of 300 respondents from four regions and the capital city of Ethiopia. The analysis employs both ordered and binary probit model and this is also supported with descriptive analysis.

The result of the analysis indicated that; when demographic factors were considered sex does not have any significant influence on the formation of inflation perception in Ethiopia. From the demographic factors only education and occupation have significant effect on inflation perception. Regarding inflation knowledge those persons who follow the media, confuse about the meaning of inflation and those perceive that inflation in food is increasing highly have a significant, but on the contrary to various theories and empirical evidences the divergence between the experience of respondents and official inflation rate does not make any significant difference. The third component which most economists considered as a primary factor in making difference among people's perception is psychology. According to prospect theory high inflation perception is closely related to the frequency of purchase, with those increase in inflation of a good people usually buys and to increase in inflation than to decrease inflation. But the result of the analysis shows that only the good that respondents typically buy have significant difference among different households where as frequency of purchase and fall in price did not make any difference.

The fourth and fifth factors that are responsible for the difference of perception among individuals are income and behavior of the individual. From the income categories low income groups, civil servants and persons who have large number of dependents have higher inflation perception. On the other hand respondents who visit more retailers, who buy their goods from supermarkets and large retailers, have lower perception of inflation whereas those who bought durable goods in the past five years have higher inflation perception.

Regarding the concern of inflation of the salariat lower income groups and civil servants have more concern on inflation. But sex, age, education and regional dummies do not make any significant difference among those

different groups.

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