

A STUDY ON IMPACT OF PETROL PRICE HIKE AMONG MIDDLE CLASS INCOME PEOPLE

Submitted in partial fulfillment of the requirements for the award of

MASTER OF BUSINESS ADMINISTRATION

BY

SOORYA S

REGISTER NO: 42410128



**DEPARTMENT OF BUSINESS ADMINISTRATION
SCHOOL OF MANAGEMENT STUDIES**

SATHYABAMA

**INSTITUTE OF SCIENCE AND TECHNOLOGY
(DEEMED TO BE UNIVERSITY)**

CATEGORY – 1 UNIVERSITY BY UGC

JEPPIAAR NAGAR, RAJIV GANDHI SALAI, CHENNAI - 600 119

DECEMBER 2023



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BONAFIDE CERTIFICATE

This is to certify that this Project Report is the bonafide work of **SOORYA S (42410128)** who carried out the Project Training “**A STUDY ON IMPACT OF PETROL PRICE HIKE AMONG MIDDLE CLASS INCOME PEOPLE**” under my supervision from September 2023 to December 2023.

DR.M.RAJA

Internal Guide

External Guide

Dr. BHUVANESWARI .G, MBA., Ph.D

Dean – School of Management Studies

Submitted for Viva voce Examination held on _____

Internal Examiner

External Examiner

DECLARATION

I **SOORYA S (42410128)** hereby declare that the Project Report entitled **“A STUDY ON IMPACT OF PETROL PRICE HIKE AMONG MIDDLE CLASS INCOME PEOPLE”** done by me under the guidance of DR.M.RAJA is submitted in partial fulfilment of the requirements for the award of Master of Business Administration degree.

DATE:

PLACE:

SOORYA S

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ABSTRACT

The purpose of this research is to identify the impact of price hike on the living standard of middle income people. The researchers tried to identify the alternatives of middle class people in face of price hike. This descriptive analytical research is conducted by random probability sampling. The data were collected by a well designed questionnaire that was tested by experts in this field to ensure the validity of the research. The responses from 85 households are processed and analyzed by frequency distribution, cross tabulation. The impact of price hike (minor, medium and major) is tested in respect of compensate by more income, change in food habits, change in accommodation and education. The result showed that there is a small reaction in the minor inflation but in medium and major inflation most of the respondents seeks alternatives to face the crisis. A significant difference in the reaction is found in most of the cases with the levels of price hikes. But the middle income people have the tendency to maintain the status quo in their life style and standard of living. The management may generate new products or services for the middle class people by keeping the mindset of them in the time of price hike. The authority should consider compensating the middle class in various ways to restore their consumption level to continue the economic activities of a country.

CHAPTER - 1

INTRODUCTION

1.1. INTRODUCTION

Petrol has become an indispensable part of our day-to-day life, and we can't imagine our life without it. But the petrol prices are sky rocketing, and it is eventually going to affect each and everything that we use in our day to day life. Middle class income people are already working hard to earn square meal a day and this hike is definitely going to paralyze these already- burdened people. Within 12 months petrol price has increased 76 times and is still increasing. It is nothing but adding fuel to the fire. Petrol hike directly or indirectly affects all the major sectors like transportation, textiles, auto, FMCG etc, for manufacturing & transportation. This affects the prices of daily essential commodities which are transported on a daily basis.

Increase in fuel price will also increase in food price. This will have a more severe impact on middle class income people because middle households spend more than half of their income on food and only a tenth on fuel. It is a chain reaction once started will affect all. Increase in petrol price will increase the transportation cost, increase in transportation cost will increase in price of goods, and this increase in price of goods would gradually force the people to loosen their pockets even more, and so on like this, the chain will further propagate. These ups and downs push more people into poverty and leading to a more pathetic situation of those already poor. This has obviously sent shock waves to the common man who is trying hard to make both ends meet. Price hike affects only the low wages or fixed salaried middle class families as compared to higher wages salaried class. The existing middle class is squeezed and many of those striving to attain the middle-class standard find it persistently out of remit will bring no negative impact on government employees as their DAs will be increased accordingly. Rich and corrupted people are least bothered of it. Business class like auto-rickshaw drivers shall transfer the burden to common people so they are also safe. Common people if doing business

shall also pass the burden to customers and chain reactions. “The fuel increases have a strong impact on consumers” pockets as the current cost of living makes it challenging for people to manage their finances.

In recent years, the global economy has been witnessing fluctuations in fuel prices, particularly in the cost of petrol. This trend has sparked widespread concerns, especially among middle-class income individuals who rely heavily on personal transportation for their daily commutes and livelihoods. The impact of petrol price hikes extends far beyond the fuel pumps, permeating various facets of life for this demographic group.

The middle class, often considered the backbone of any economy, plays a pivotal role in sustaining economic stability and growth. However, they are also among the most vulnerable to fluctuations in essential commodity prices, including petrol. As such, understanding the ramifications of petrol price hikes on this segment of society is crucial for policymakers, economists, and individuals alike.

This paper seeks to explore the multifaceted impact of petrol price hikes on middle-class income people, examining its effects on household budgets, transportation choices, consumption patterns, and overall quality of life. By delving into these areas, we can gain a comprehensive understanding of how fluctuations in petrol prices reverberate through the socio-economic fabric, affecting both individuals and communities.

Firstly, the rising cost of petrol directly affects household budgets, as it translates into increased expenses for transportation, whether for daily commutes, errands, or leisure activities. For middle-class families already grappling with various financial commitments, such as mortgages, education expenses, and healthcare costs, higher petrol prices can strain budgets and force adjustments in spending priorities.

Moreover, the impact extends beyond immediate financial implications, influencing transportation choices and lifestyle decisions. Middle-class individuals may opt for alternative modes of transportation, such as public transit, biking, or

carpooling, in an effort to mitigate the financial burden of petrol price hikes. Such shifts in transportation patterns can have broader implications for urban infrastructure, environmental sustainability, and public policy initiatives.

Additionally, petrol price hikes can also alter consumption patterns among middle-class households. As discretionary income becomes constrained due to increased spending on petrol, individuals may cut back on non-essential purchases, affecting various sectors of the economy, including retail, entertainment, and dining. This shift in consumer behavior can have ripple effects on businesses, employment, and overall economic activity.

Furthermore, the psychological impact of petrol price hikes should not be underestimated. Middle-class individuals may experience heightened financial stress and anxiety, grappling with uncertainties about future expenses and economic stability. Such concerns can impact mental well-being, productivity, and long-term financial planning, creating additional challenges for this demographic group.

1.2. OBJECTIVES OF THE STUDY

- To explore the impact of price hike in the people particularly Middle Income families.
- To understand how Middle class people affected by the petrol price hike.
- To study the effect on middle class income people daily routine and salary.

1.3. SCOPE OF THE STUDY

- This scope of the study is middle class income people how they are affected.
- This study is not about crude oil, diesel, white petrol its only about petrol price hike among middle class income people.
- This study about how their handling the petrol price hike

CHAPTER – 2

REVIEW OF LITERATURE

2.1. REVIEW OF LITERATURE

Bhattacharya and Batra, 2009 the author aims to study how worldwide oil prices affect domestic inflation and output growth in his research work. Bhanu Murthy, Bhanu Das, and Bhanu Bose In his research, he focused on the effect of international oil prices on domestic oil prices in 2012. Cody and Anand In his research, he focused on fuel pricing analyses in 2013. M.K. Anand (2014) centered his research on the cost of inflation and the cost of implementing food security policies. Nonlinear oil price increases are far more important than oil price declines, according to Hamilton 2016

Anand, Caody, Mohammed, Thakoor and P Walsh 2013: in their paper entitled “The Fiscal and Welfare Impacts of Reforming Fuel Subsidies in India” analysed various pricing approaches or fuel and how it will impact the subsidies. The paper further analyzes the fuel subsidies followed by countries and how increase in fuel prices help in compensating fuel subsidies on one side however affecting household incomes on the other side.

Akansha Sanjay Jain, 2015: reveals that future oil prices are difficult to predict, they are generally expected to rise. Given our increasing dependence on oil imports affects the Indian economy, by the increase in the price of crude oil the inflation increases, government have to spend too much on subsidy, our exports become weaker, investment decreases and GDP is also affected.

Ghosh T, 2016: investigates the dynamic relationship between movements in oil prices and exchange rates with macroeconomic variables like price, output, interest rate and money by using structural vector auto regression (SVAR) approach. The result shows three important policy implications: first, the world price of oil has a great potential to impact India's output. Second, targeting depreciation of Indian

rupee to expand output may not be an effective policy tool for the RBI. Third, variation in rupee's value can have medium to long term impact on world price of oil that the world should care about.

K. Soundarapandian, 2017: indicate that there is inter correlation between CPI and crude oil price and vice versa i.e. whenever the CPI increases there is decrease in crude oil price. There is significant difference between crude oil price and GDP and no significant difference between CPI and GDP. (Nguyen Thi Ngoc Trang, 2017), uses vector auto regression model and realized that a rise in oil prices would lead to higher inflation and budget deficit in Vietnam while its impact on the gross domestic product growth and unemployment are unclear.

Sivarajan, 2018: concluded that the rise in fuel price is directly linked to the International Crude Oil Price. Thus the rise in Fuel Prices that the country has been witnessing is attributable to a number of factors. While Government too can play a role in cutting down the price, it is inappropriate to blame the Government alone for this hike. Thus we can conclude that Government has a role to play in the Fuel prices in the country, but that alone is not the only determinant of the Fuel Price.

Debjit, 2021: found that pump prices are so high in India that some of the gasoline and diesel exported to neighboring countries is being smuggled back through porous land borders. While the increase in pump rates is the result of a sharp recovery in the prices of global crude oil, taxes have remained stubbornly high, making up closer to 60% of what consumers pay in India. Prime Minister Narendra Modi and his oil minister Dharmendra Pradhan have been fending off criticism by shifting the blame for high prices on previous governments and production cuts by some oil exporting nations. Analysed that sales of gasoline in India, used by millions for personal transport, faltered as high pump prices and a still rising infection count weighed on demand.

Gasoline sales last month fell 2% from a year earlier, according to people familiar with preliminary data from the country's three biggest retailers. Record pump prices are also adding to lower sales as people turn judicious spenders amid job losses

and salary cuts as the pandemic and strict restrictions ravaged the Indian economy. The sale of diesel – the country's most used fuel and a proxy for economic health - - dropped 8.6% in February from a year earlier, according to the people. Liquefied petroleum gas was the only fuel that saw a year-on-year rise, with use of the cooking fuel surging 7.6% from the same month in 2020.

CHAPTER - 3

RESEAECH METHODOLOGY

3.1. RESEARCH METHODOLOGY

The methodology of the study includes sampling, Data collection analytical research done on the basis of thinking of the respondents regarding the steps to be taken in the face of price hike of essentials. The research is designed to carry out by questionnaire method to give the respondents sufficient time of thinking before answer the questions. The questionnaire contained dichotomous, close-ended and open-ended questions.

Sampling Method: The Sampling Method which is used for the study is Convinent Sampling Method.

SOURCE OF DATA

RESEARCH DESIGN

Data Collection: This study constitute of primary and secondary data.

Primary Data: This research is based on the primary data which is collected from the Middle class income groups through structured questionnaire.

Secondary Data: Secondary data that is already available and published. Such as various websites, newspapers, magazines, etc. In order to find information useful for completion of this project.

SAMPLE SIZE:

The sample size for this research was of 101 people

PERIOD OF STUDY:

The study was conducted from the month of August 2023 to the month of November 2023 which was a period of 3 months.

LOCATION & TARGETED PEOPLE OF STUDY:

The targeted people are middle class income people.

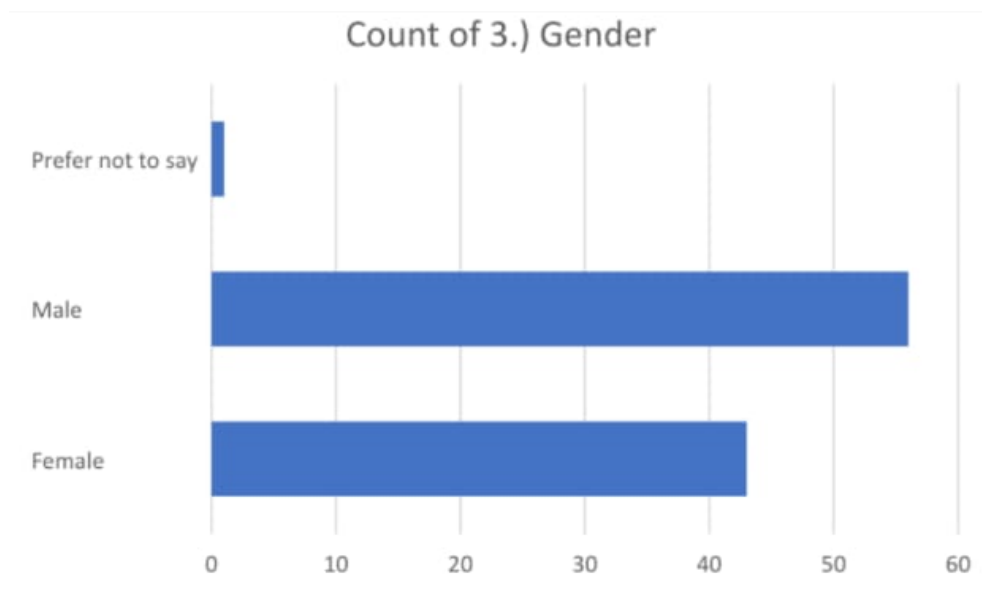
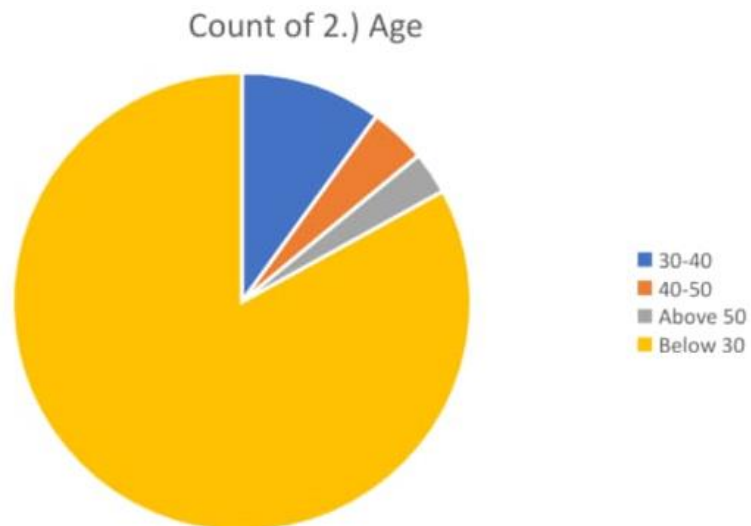
HYPOTHESIS ANALYSIS TOOL OUTPUT:

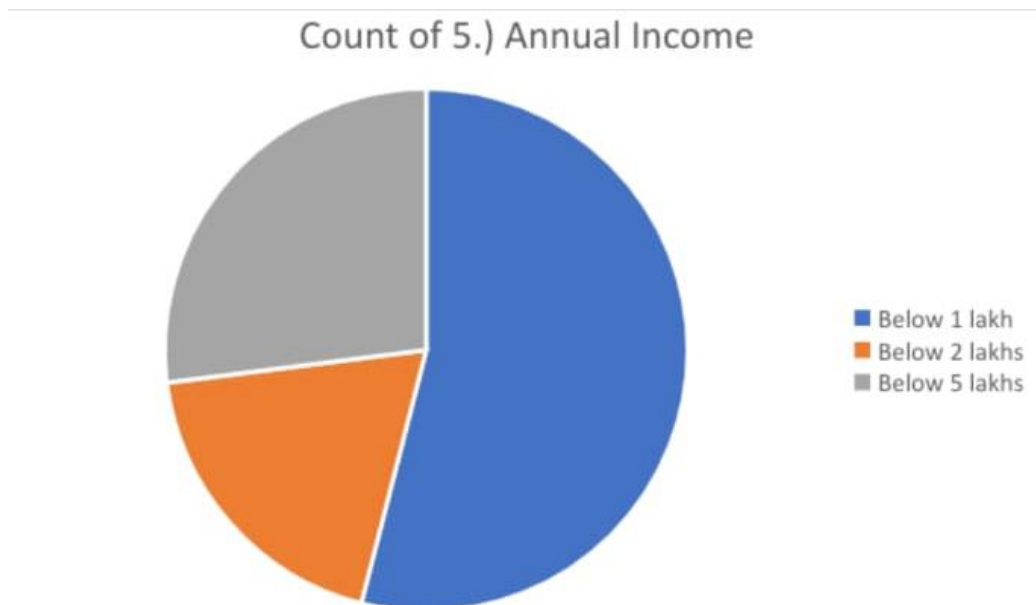
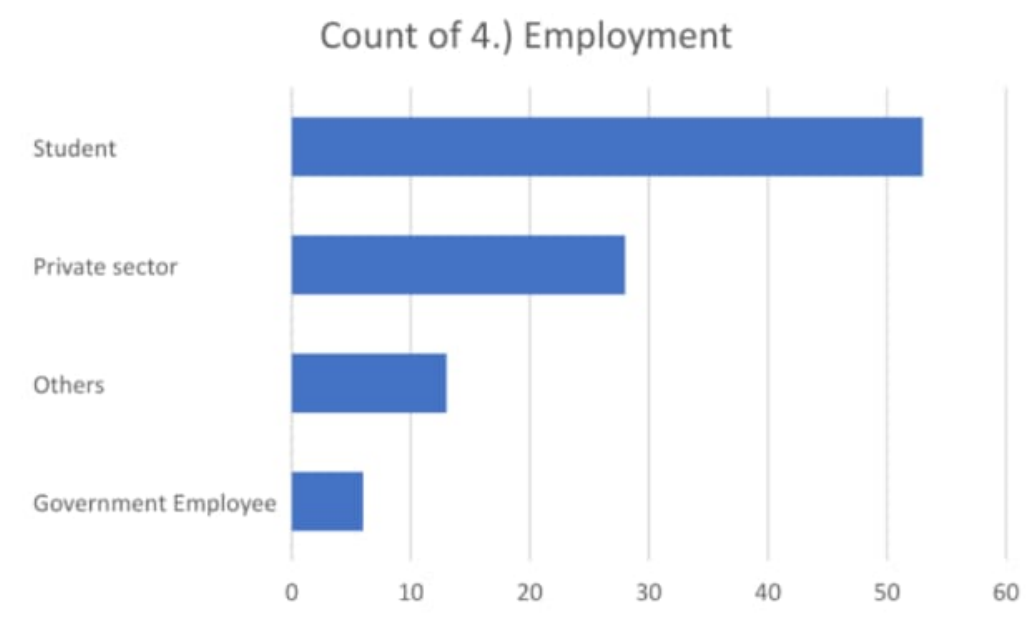
A chi squared test is a statistical hypothesis test used in the analysis of contingency table when the sample sizes are large. In simpler terms, this test is primarily used to examine whether two categorical variables are independent influencing the test statistic.

CHAPTER – 4

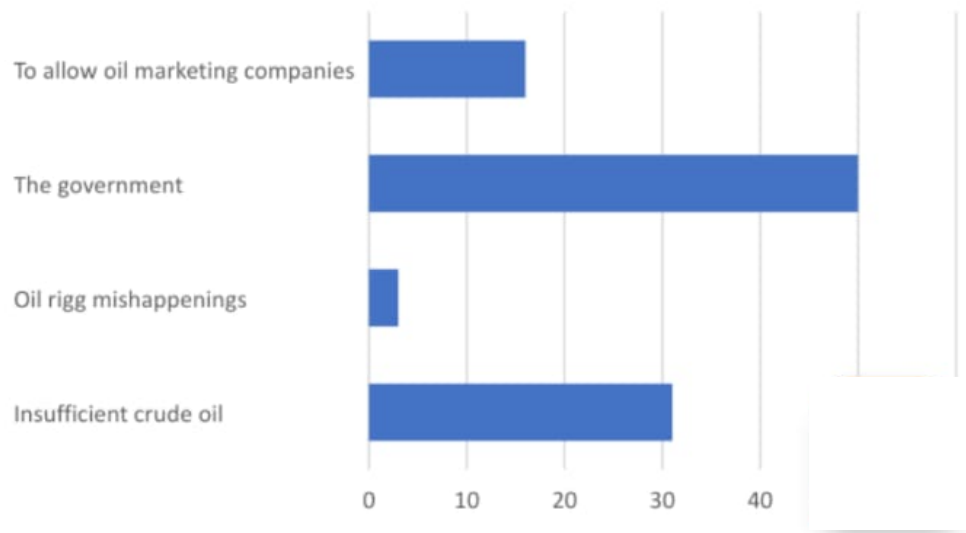
DATA ANALYSIS AND INTERPRETATION

4.1. DATA ANALYSIS AND INTERPRETATION

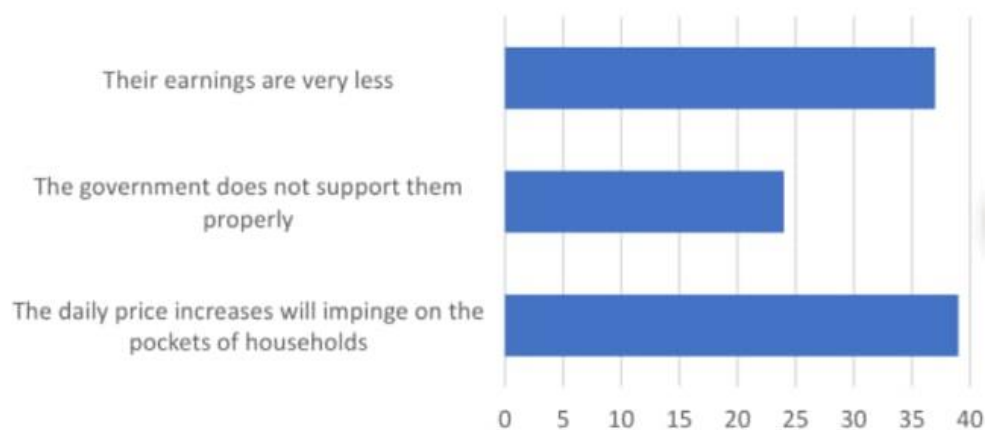




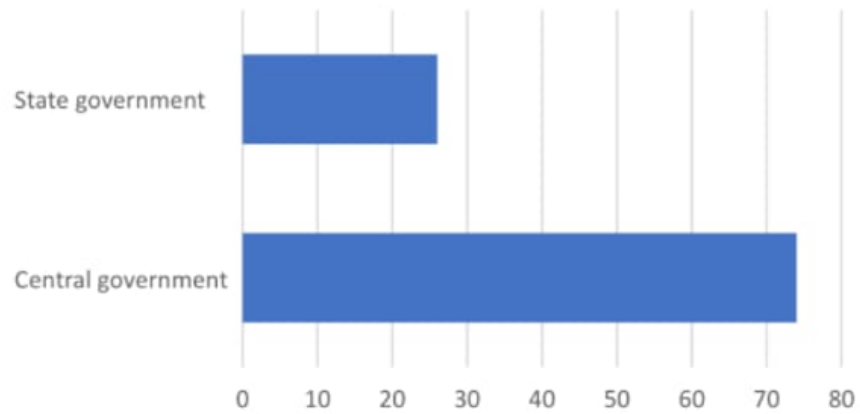
Count of 6.) How does the petrol price rise ?



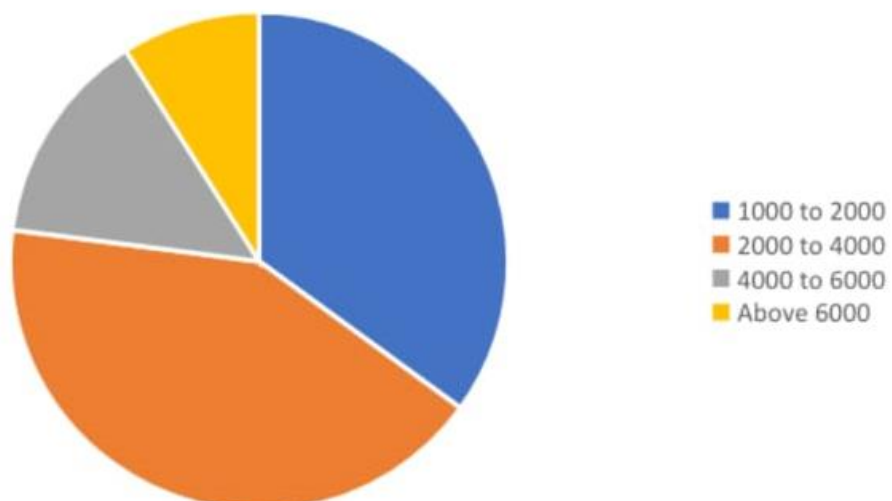
Count of 7.) Why are the middle class people affected more by the petrol price hike ?



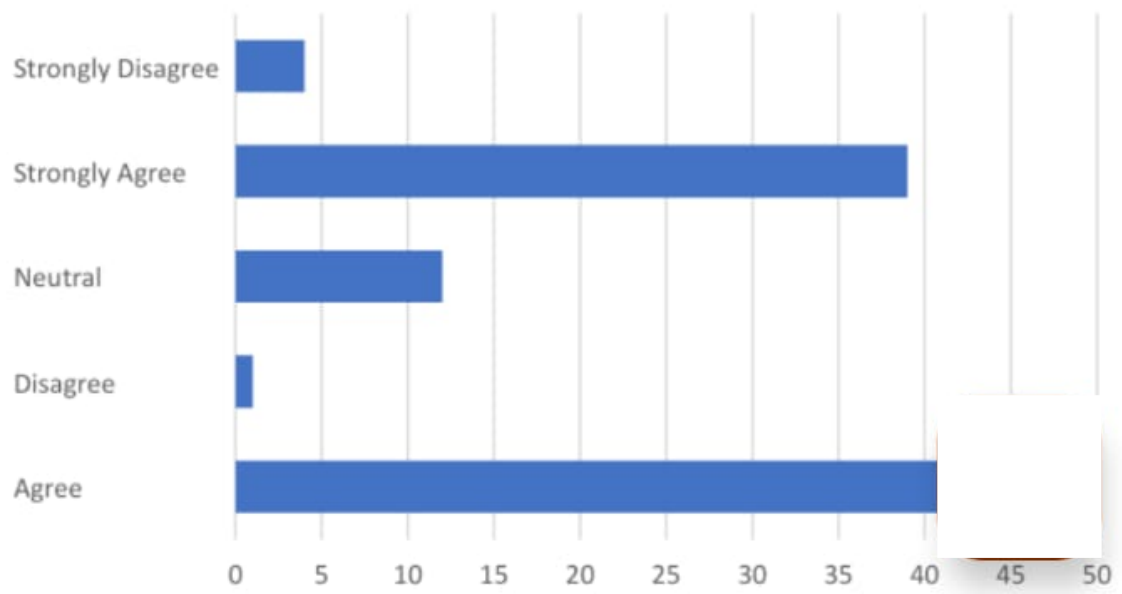
Count of 8.) Who is responsible for petrol price hike?



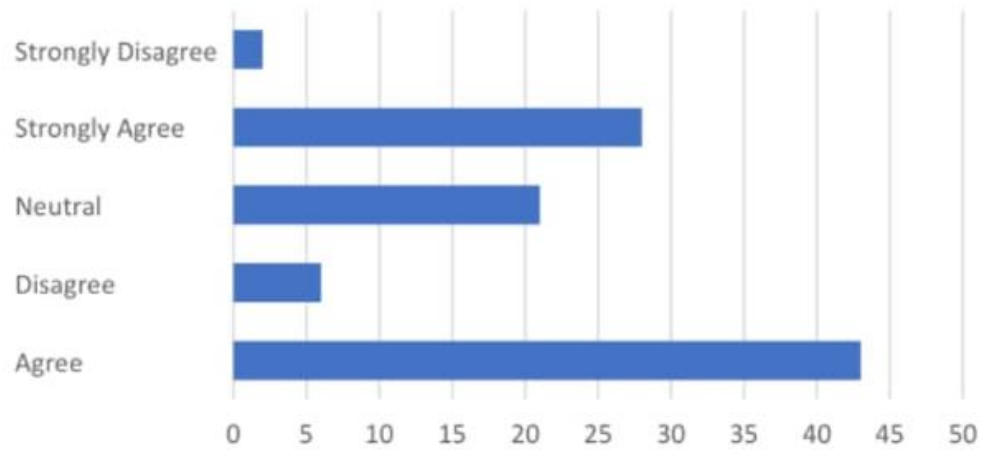
Count of 9.) How minimum amount spent for petrol per month?



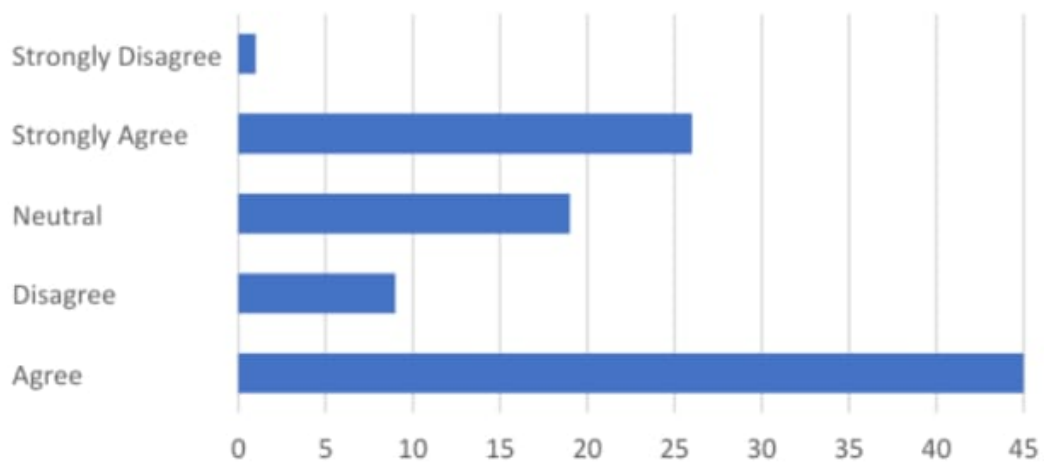
Count of 10.) Price hike affect basic necessities?



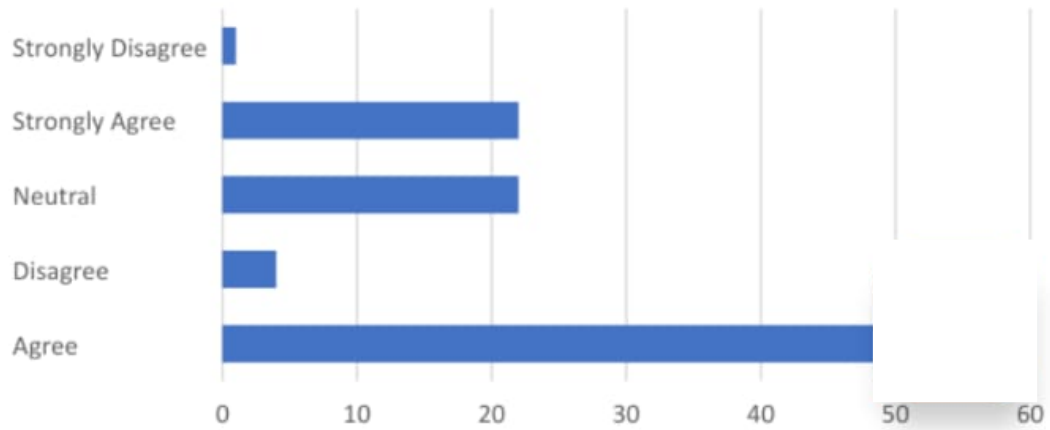
Count of 11.) Other expenses of the family will be reduced?



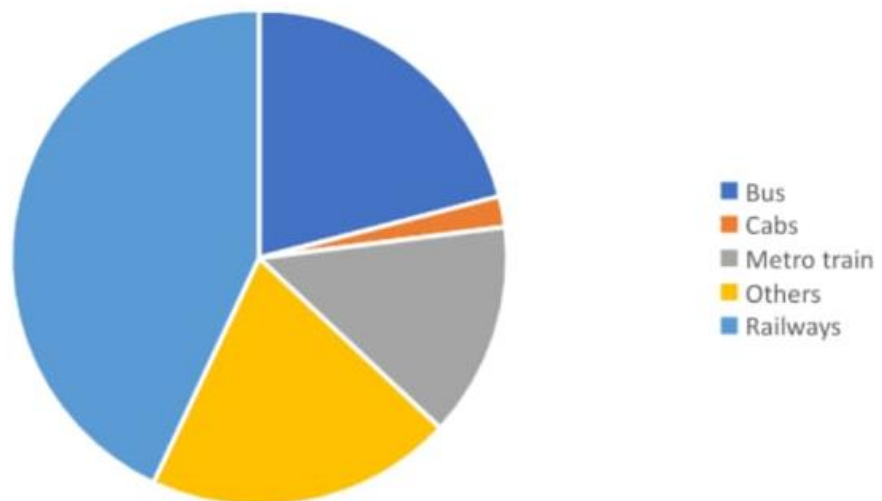
Count of 12.) If the purchasing power is reduced, the economy will suffer?



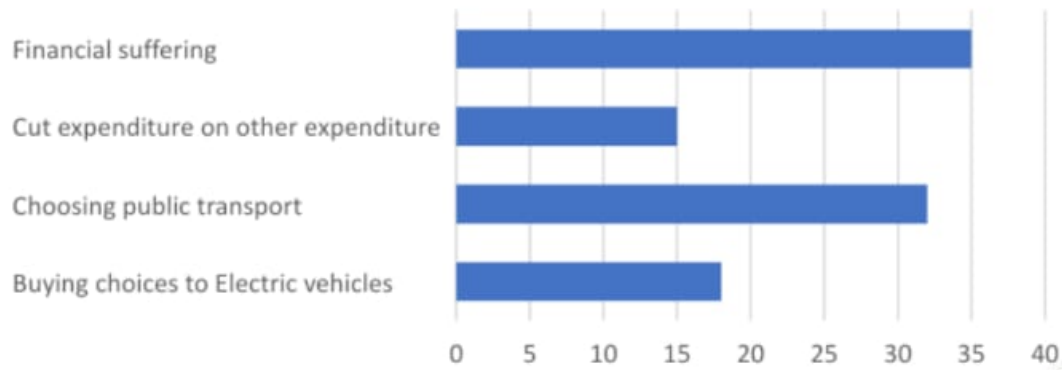
Count of 13.) Due to petrol price hike we use public transport vehicles?



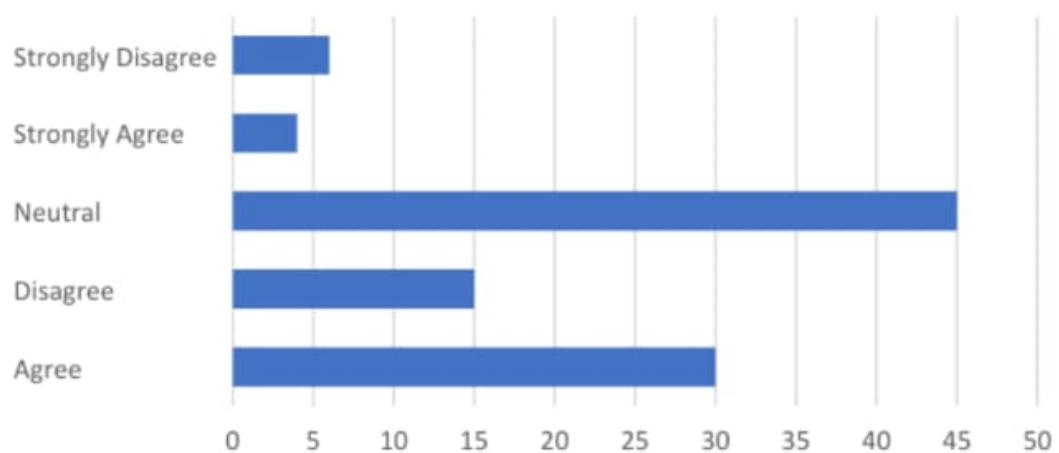
Count of 14.) Which transport do you use for long journeys?



Count of 17.) What is the major problem in petrol price rises through middle class people?



Count of 19.) Can middle class people afford high CC bike?



Chi-Square Tests

	Value	df	Asymptotic Significance (2- sided)
Pearson Chi-Square	12.136 ^a	6	.059
Likelihood Ratio	11.142	6	.084
N of Valid Cases	85		

a. 6 cells (50.0%) have expected count less than 5. The minimum expected count is .04.

Symmetric Measures

		Value	Approximate Significance
Nominal by Nominal	Phi	.378	.059
	Cramer's V	.267	.059
N of Valid Cases		85	

CHAPTER – 5

FINDINGS, SUGGESTION & CONCLUSION

5.1. FINDINGS

With the consistent rise in petrol price, some of the ways in which the impact would be seen around us can be listed out as follows:

According to this survey, their first blame is the government as 39% people blame the government and 37% people blame their income. But there are many people who say that the government is responsible for this.

The second factor is that the middle class blames the central government for the rise in petrol prices because the central government taxes the production of petroleum products while the states tax their sale. The central government levies an excise duty of Rs.32.9. per liter on petrol.

The third impact is that 45% strongly agree and 26% agree that rising petrol prices affect the purchasing power of the middle class. Uneven price hikes inevitably reduce the purchasing power of some consumers.

A further impact, the study says, is that the rise in petrol prices has forced the middle class to use public transport more, thus affecting the middle class's time and making for an uncomfortable commute. Petrol price hike is not a small impact but continues like a chain.

Petrol Price Trend (Prices per Liter) in India for June 2023 Petrol price in June was Rs.

96.76 per litre, the lowest selling price of the year, petrol prices in India remain unchanged at Rs 102.63 per liter in Chennai, which not only affects the economy of the middle class but also adds to financial pressure.

When asked what middle-income people would do to increase in petrol prices, 36% said they had no choice and 22% said they would have to buy whatever the price was. They are unable to accept the government's petrol price but are in a situation where they have to buy it.

5.2. SUGGESTIONS

The suggestion of the majority of middle income people is that if the tax is moderated it will make it easier for all income people to buy petrol. The central government levies an excise duty of Rs 32.9 per liter on petrol and the state government levies an excise duty of Rs 11.52 per liter on petrol.

The next important suggestion is that implementation of GST on petroleum will bring down prices.(Via India Business News)

Currently, petroleum products like petrol, diesel, ATF & natural gas are outside the ambit of GST and are covered under legacy taxes like VAT, Central Sales Tax, Central Excise Duty, etc.

The last suggestion given by middle income people on petrol price hike is to raise the petrol price but before that, decide the price considering people's livelihood, economy and situation.

LIMITATIONS OF THE STUDY

The research was done on middle class income people.

The data collected for the research is fully on primary data given by the respondents.

The study duration is short.

The findings of the study are based on the information retrieved by the selected.

5.3. CONCLUSIONS

India's middle class population is estimated to be around 140 crore out of a total of 35 crore Indians.

A middle income earner spends his salary on basic expenses like rice, vegetables, groceries, house rent, milk products, gas, electricity bills, etc., and is forced to fill up his vehicle with the remaining money to travel... But the almost 40 percent increase in the price of gasoline makes him feel that his vehicle is a burden. .

Fuel prices force him to compromise on one or more of his essential needs. The crisis begins with what to compromise. Whether it is the variety of curry he buys once a month, or the vegetables he buys daily, or the much-needed amount of rice, because house rent, gas etc. are next to his personal expenses, he is forced to compromise on essential needs. While denying adequate nutrients is an injustice to one's generation, it is clear that this is due to the problem of controlling fuel costs.

Rising prices of essential commodities will further erode the standard of living of the common man. Not surprisingly, the need for fuel is also essential in a fast-paced world. Not surprisingly, its high prices tripped them up.

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ANNEXURE 1 – QUESTIONNAIRE

1) Name *

2.) Age *

Below 30

30-40

40-50

Above 50

3.) Gender*

Male

Female

Prefer not to say

4.) Employment *

Government Employee

Private sector

Student

Others

5.) Annual Income *

Below 1 lakh

Below 2 lakhs

Below 5 lakhs

6.) How does the petrol price rise? *

Insufficient crude oil

Oil rigg mishappenings

To allow oil marketing companies

The government

7.) Why are the middle class people affected more by the petrol price.

The daily price increases will hike impinge on the pockets of households

Their earnings are very less

The government does not support them properly

8.) Who is responsible for petrol price hike?

State government

Central government

9.) How minimum amount spent for petrol per month?

1000 to 2000

2000 to 4000

4000 to 6000

Above 6000

10.) Price hike affect basic necessities?

Agree

Strongly Agree

Neutral

Strongly Disagree

Disagree

11.) Other expenses of the family will be reduced?

Agree

Strongly Agree

Neutral

Strongly Disagree

Disagree

12.) If the purchasing power is reduced, the economy will suffer?

Agree

Strongly Agree

Neutral

Strongly Disagree

Disagree

13.) Due to petrol price hike we use public transport vehicles?

Agree

Strongly Agree

Neutral

Strongly Disagree

Disagree

14.) Which transport do you use for long journeys?

Metro train

Railways

Bus Cabs

Others

15.) If we use the public transport, what we lose?

Time waste

Heavy tax

Fixed schedule

Uncomfortable rides

Others

16.) How is the middle class psychologically affected by the rise in petrol prices?

Getting anger

Increase stress around finance

Exhaustion

Nothing can be done

Others

17.) What is the major problem in petrol price rises through middle class people?

Choosing public transport

Buying choices to Electric vehicles

Cut expenditure on other expenditure

Financial suffering

18.) What can people do about rising petrol prices

What middle class people can do

there is no other choice

No way how much they sell, we have to buy

Others

19.) Can middle class people afford high CC bike?

Agree

Strongly Agree

Neutral

Strongly Disagree

Disagree

20.) If the price of petrol is rising like this will the middle class people think of buying a car?

Agree

Strongly Agree

Neutral

Strongly Disagree

Disagree