Introduction

CHAPTER I

INTRODUCTION

Families are the basic social and economic units in any society Families are groups related by kinship, residence or close emotional attachments (Mattessich and Hill, 1987) As defined by Walker and Crocker, (1988), "a family system can be defined as any social unit with which an individual is intimately involved and which is governed by family rules" Families display four systematic features, namely, ability to adapt to change and maintain their identity over time, intimate interdependence, selective boundary maintenance and performance of the family tasks, which include physical maintenance, socialization and education control of social and sexual behaviour, maintenance of family morale and motivation to perform roles inside and outside the family and so on (Mattessich and Hill, 1987)

Families of yesterday and today have been concentrating upon the well being of its members, care and nurture of the younger ones, protection and support to the elderly and providing the basic necessities to all its members Over the years, families of the world have witnessed transition The modern family evolved in concert with industrialization, science and technology With the growth of specialized wage labour, economically productive work moved beyond the reach of the family compound The resources of the salaried family and the number of people who could be supported by its wage-earners were fixed Living space in the neighbourhood of industries and other specialized work sites was expensive and non-expansible Where neighbours were strangers, the modern urban family became a 'heaven in a heartless world' (Lasch, 1977)

Along with industrialization, the expansion of global markets, the mass media, availability of health care, education and transport and other services led to the formation of modern urban families in developing countries The availability of these facilities brought quantum changes in income, life expectancy, nutritional status, educational opportunities and other indicators of the quality of life It is widely agreed that families are better off with these changes than without them, yet there does exist another side of the coin Unlike agrarian economy, the modern urban economy was unable to support the unskilled members The agrarian family could support its unskilled and psychologically marginal members by allotting them menial tasks With departure from the farms, salaried families cannot support poor relatives who are unable to find stable employment A large portion of urban families is left in the amorphous non-formal sector of petty trade and services, resulting into low salaries, less education opportunities for children and the vicious circle going on, such families fall into the category of low income and lower middle income groups Based on the quantum of income, urban families are categorized into various income classes such as higher income class, middle income class and lower income class

Despite the variations in family income, families engage in various functions and exhibit specific behaviour Family behavoiur can be sub divided into two areas of study – one emphasizing family relationships and the second focusing on goal oriented behaviour A goal is a desired state of being The family goal complex represents the overall state of being in which the family would like to be located at any given time in its life cycle If it is to be a viable force directing family decisions and action in the instrumental area of behaviour, this goal-complex must be dynamic and responsive to the changing situation and needs of family members Goal oriented behaviour of the family encompasses the act of setting goal for the family system, the determination of means by which goals will be achieved and the development and allocation of resources to be invested in goal achievement It also includes the securing and maintaining of support and co-operation from family members of system goal achievement (Edwards, 1977)

Families set long term goals for the attainment of which short-term and intermediate goals are set Accomplishment of specific individual and family desires is the aim behind these goal setting woven by the supreme desire of well being and good quality of life for the family

As put by Mukherjee, (1989) the old notions like well being, happiness and good life are renamed as Quality of Life (QoL) Though this phenomena has started as a research field only three decades ago, it has become highly popular and has spread all over the globe Quality of Life means different things to different people It consists of a blend of qualitative and quantitative, objective and subjective perceptual variables which may include many different approaches, concepts and dimensions

Since the term like QoL is influenced by cultural, social, political and economic processes it is not an easy task to define the same Yet attempts have been made to delimit the field of concern with quality of life "Quality of Life of human beings is defined in terms of the extent to which basic needs are met and values are realized It is synonymous with well being from both objective and subjective stand points" (Bubolz and Sontag, 1993) QoL research has during past been extended to include not only social indicators, but also family life, psychological or subjective well being, happiness and life satisfaction

The Quality of Life of individual families and society is determined by household related action involving the creation and utilization of resources Productive resources, consumer resources and human resources (Schwetzer, 1991) Productive resources are acquired through work, gainful employment and inheritance together with our claims to social security. Family's material needs can be met through these resources Consumer resources enable the families to arrange the standard of living through obtaining consumer goods, durable goods and satisfying leisure requirements Human resources are probably the most important resources which are defined as "the totality of competencies of the members of a group Through a combination of productive, consumer and human resources desired standard of living can be attained that corresponds to family's set values and concepts of life" It is important to note in this context that adequacy of resources contribute heavily to household's flexibility in activities and capacity for meeting goals Total resources of the family, regardless of their type or source, comprise a system of their own A change in one brings change throughout the system Decisions in family or group living must deal with resource inter relationship (Magrabi, Elgidaily, et al, 1972)

Amongst all resources, most people consciously focus on time and money with decisions about other resources interwoven. Money is the resource on which management focuses most frequently, the reasons behind the same probably are

a) It normally represent flows or continuums and therefore present an ongoing basis for management and

b) It is easily measured, the amount needed for attainment of various goals can be predicted and compared

Money, as a single resource is so crucial that without it a desired goal cannot be achieved although other resources are readily available A family's money management involves decisions about all resources and reflects the complex value system of the family Ours is indeed a money world in which most of the goods and many of the services considered essential cannot be provided by an individual family without the exchange of money in the market Further more, the family's feelings about money, its social and economic position and the adequacy with which psychological and biological needs are met may well determine the emotional security of the individual as well as his life style (Knoll, 1980)

There is no doubt that economic security is necessary to one's sense of well being Results of a study, comparing concerns of people in several developed and developing nations indicate that concern with personal economic matters far out weigh other concerns (Mullis, 1982) One of the important domains or dimensions of Quality of Life is level of consumption. Level of consumption of a family is one important constituent of several factors which would characterize the standard of living of a family One can view level of consumption as indicating variety of consumer goods at the disposal of a consumer It may also be an indicator of effective demand of the consumer class, or in a very broad sense, one may understand by the term level of consumption, the purchasing power

Rising prices reduce the purchasing power of money income in general and its impact on the living standards of Families is not uniform (Iyengar and Jain, 1976) Whether a person is hurt or helped by inflation and by how much depends on,

a) What goods and services the person is consuming or selling,

b) How fast the prices of those goods and services are rising relative to the overall inflation rate and relative to other goods and services, and

c) Whether the economic unit is giving (buying) or receiving (selling) money

If price rise, and nominal income does not, then the consumer's real income decreases

1.1 Rationale of the study

Inflation is considered by most people as the major economic problem as it affects adversely all without exception Rising cost of essential commodities is most commonly the main topic of conversation among people. Business firms realize that higher prices for materials, labour and equipment will reduce business profits unless they are successful in passing on these higher costs to consumer in the form of higher retail prices Inflation is a prime bargaining consideration in labour union negotiation All groups comprising population, consumers, unions and business firms are concerned about inflation However, one cannot deny the fact that inflation hits the consumers the most This has the implication that the consumers need to adopt and adjust to rising prices by altering their priorities and reallocating their expenditure plans. This becomes imperative on the part of Families as inflation causes erosion of purchasing power as well as efficiency and welfare losses The process of adjustment entails essentially the household resource management More specifically, rising prices cause real income to fall, quantity and quality of goods consumed to suffer and the well-being of the consumers is affected adversely Inflation, by encouraging everyone to make adjustments and divert time and resources away from production, reduces economic efficiency

Though, rising prices undoubtedly reduce purchasing power of every family, as well as aggravate its economic hardships by imposing larger costs and economic constraints, the incidence and impact of the same could differ across Families with differing income levels Rising consumer goods prices often compel the Families to drastically alter their consumption and also the process of asset formation in an intertemporal sense Prevalence of inflation leads to a structural metamorphosis of economic profile of many Families

To combat such adverse èconomic environment, Families respond by employing different coping strategies and through management of their resources It can not be denied that economic unit, especially the household faces choices between present v/s future consumption (the future or postponed consumption is better known as savings) and also the investment plans. The management of resources may lead in the wake of rising cost of living to compositional changes in the basket of goods consumed to portfolio changes in assets and liabilities of Families

It needs to be stressed that multiple processes are involved in the management of family resources They provide flow of inter related actions to achieve goals and to meet demands The external inflationary environment impacts upon the family sub system and compels it to judiciously use its resources (Boss, 1987)

It is no exaggeration to say that inflation and especially rising commodity prices exert pervasive influence on quality of life Traditionally, quality of life has been assessed by an individual's command over economic possessions and it was contented that economic security is necessary to ones sense of well being National opinion polls in many countries have shown that the worries that people had were most often related to economic matters (Jeanne, 1989) Financial security and inability to make ends meet were upper most in the minds of common people

Studies that have compared measures of life satisfaction in countries at various levels of economic development have observed that the highest sense of well being is found in these countries with the highest per capita income and with reasonably modest inflation rates (Dennis and Brenda, 1999) In short, the economic ability and financial security have been linked with the satisfaction with quality of life

Inflation, as an external economic parameter of large environment operates through the intervening variables of the sub system namely, financial management and coping strategies and affects the quality of life

For the Indian economy, the National Sample Survey had been conducting studies on income and expenditure of Families with different income levels It also periodically undertakes studies on savings and investment by these Families Zaveri, (1974) had examined the impact of inflation on the incomes of income tax payers and their responses and accompanying adjustments to inflation Major conclusion of his study was, inflation causes substantial erosion of purchasing power. He had also analyzed the rate of growth in pre tax income, the effect of changes in general price level and the changes in income tax liability

Shridhar, (1978) had studied the changes in distribution of income and consumption expenditure by different sections of the population in an inflationary context Accordingly, inflation in India has hurt mainly the poor Given their levels of poverty, even marginal falls in their consumption are of serious consequence Even the public distribution system affords only partial protection to the urban poor

Gopal Krishna, (1985) and Satya Paul, (1988) have also examined the household consumption and disparity in level of living. They had used total consumption expenditure and per capita consumption expenditure as a criteria to indicate disparity in levels of living They had considered the Engel ratios or budget shares of selected goods such as food – as welfare indicators

Majority of the research studies done in this area have concentrated on aggregate impact of inflation The disaggregate studies of the micro type have been almost absent The generalizations and inferences drawn from aggregate studies often fail to reflect the true impact of rising prices on individual Families and the intensity of actual economic compulsions and hardships that they impose. What is important and revealing is that the perceptions and realizations of Families belonging to different income classes also differ and their responses and adapting strategies differ as well

Financial conditions, financial security and other domains of life, have been linked with the satisfaction with quality of life (Metzen, Williams et al, 1980) To avail and to retain the desired quality of life, families have to adopt certain coping strategies

Coping research in the family field has depended upon and drawn heavily from cognitive psychological as well as sociological theories (Hann, 1977) Cognitive coping strategies refer to the ways in which individual family members alter their subjective perceptions of stressful situations External influences and situations are taken into account through their impact on internal motivation and emotional states

Sociological theories of coping have emphasized a wide variety of actions directed at, either changing stressful conditions or alleviating distress by manipulating the social environment (Mccubin and Joy, 1980)

Home management is concerned with the ways in which a family uses all its resources and with the quality and quantity of life resulting from the management process

As the economy has grown, the family's marginal options have focused increasingly on money as a resource Money, one of the many significant resources of individual and family management is likely to be central to planning The role of money is primarily indirect It is a medium for value comparisons and claims on resources that are used directly as well as a mechanism for interchanges with the general economy and interactions with other individuals, groups and institutions Money plays a strategic role when decisions are made about total resources available to a family (Hefferan, 1982)

"An individual's or a family's sense of economic well-being is related to the realization of financial goals and aspirations and the path of reaching the same involves family cash flow management (that is, planning, controlling and evaluating) of families involved in allocating their flow of income. These activities, some cognitive and others overtly observable behaviour, occur in a relatively short time period and are universally engaged in by families" (Godwin, 1990) Most descriptive examinations of family cash flow management have focused on the frequency or extensiveness of planning behaviour, the existence of a written budget, or record-keeping and account-management

Subjective financial well-being of families or their level of satisfaction with their current financial situation is yet another outcome of families' cash flow management A few studies have examined the relationship between the financial management behaviour of families and their level of satisfaction with their finances Results reported that the central objective of family financial management was to improve the family's financial well-being through improved financial status including, higher net worth, higher levels of liquid savings and a lower debt/asset ratio (Rudd, 1983)

Present study aims at identifying, how different income class families of Vadodara city evolve and respond to economic goals. The study further aims at identifying the financial management practices adopted by the families, incorporating the planning, controlling and evaluating process in relation to money as a resource Identifying the economic profile of the families is also an important objective of the present study Effect of price rise on families' cost of living as well as the study of coping behaviour of the families is also the focus of this study.

The economic parameters are important in determining the quality of life of the families, hence using the selected economic parameters, the present study aims at investigating the components of the same and their relationships to satisfaction with quality of life

The results of the present study would have far reaching implications in understanding the impact of rising prices on the families from various income groups It would give an insight to the students of Home Management to refinding measures taken by families to meet such a situation. It would also give some infront to the policy workers who decide the economic policies of the nation It would help to sensitize them towards the problems experienced by the public

Thus present study was thus planned upto following objectives

1.2 Objectives of the study

1 To assess personal and familial variables of the respondents

2 To identify price variations of aggregate and disaggregate levels of the years 1995-96 and 1999-2000, and to calculate cost of living indices for five income groups

3 To identify and compare the economic profile of the families

4 To assess financial management practices followed by the families as a result of rise in general price level

5 To identify the problems faced by the families and the coping strategies adopted against rising prices

6 To assess satisfaction of respondents with regards to Quality of Life

7 To study interrelationship among selected independent and intervening variables and the dependent variable

1.3 Assumptions of the Study

1 There is an increase in general price level

2 The impact of rise in general price level on financial management and quality of life varies among different income classes

1.4 Hypotheses of the study

H1 There exists relationship between personal and family variables and, families'

- i Economic profile
- ii Financial management practices
- iii Coping strategies
- iv Quality of life

H2 There is an association between rise in general price level at 1995-96 and 1999-2000 and families' i Cost of living

ii Quality of life

H3 Correlation exists between families' financial management practices and Quality of life

H4 There exists relationship between coping strategies adopted by families as well as their economic profile and quality of life

1.5 Delimitations of the study

1 The study was limited to 255 Families residing in Vadodara City

2 The study was limited to five income groups