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How Has Inflation From 2010 To 2024 Differentially Impacted the Purchasing Power of Essential Goods and Services Among Lower-Income Rural Versus Urban Households in India?

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Abstract
This study investigates how inflation between 2010 and 2024 differentially impacted the purchasing power of lower-income rural and urban households in India, focusing on essential goods and services such as food, housing, healthcare, and fuel. Using a purely secondary data-based approach, the research analysed trends from Consumer Price Index (CPI) data, NSSO Household Consumption Expenditure Surveys, RBI inflation reports, and government policy documents. The findings revealed that rural households faced persistent and volatile food inflation, significantly affecting nutritional adequacy and basic consumption, while urban households were more vulnerable to rising housing and transport costs, leading to declining real disposable incomes. Despite various government interventions like the Public Distribution System (PDS), MGNREGA, and LPG subsidies, the protection offered against inflationary pressures remained limited and uneven. The study highlights the regressive nature of inflation, the inadequacy of national inflation indices in capturing lived realities, and the urgent need for region-specific, income-sensitive policy responses. These insights contribute to a more nuanced understanding of inflation's role in deepening economic inequality and offer guidance for more targeted and inflation-indexed welfare interventions.

1. Introduction

1.1. Context of the study

According to the International Monetary Fund, inflation can be defined as the rate of increase in prices of goods and services over a given period. The concept is typically a broader measure used, like the increase in costs of living in a country, or the overall increase in prices of goods and services. Purchasing power can be defined as a measure of the quantity of goods and services an individual or a group of people can purchase with a unit of currency. In other words, it is the amount of money an individual or group has available to spend. Inflation directly affects the purchasing power of consumers by reducing the real value of money, which means households will need more income to afford the same quantity of goods and services over time. This impact becomes increasingly severe for lower-income households, as they spend larger proportions of their earnings on essential goods and services such as food, housing, water and more. When inflation rises at a rate greater than the increase in wages, real incomes decline, which forces families to cut back on discretionary spending such as healthcare, education, and their savings.

In India, inflation varies significantly between rural and urban areas, with rural areas experiencing higher inflation in food prices. On the other hand, urban households struggle with rises in fuel and transportation costs. This gap between income growth and inflation has continued to widen, deepening financial distress for daily wage and informal sector labourers. Additionally, factors like disruptions in supply chains, fluctuations in global commodity prices, and changing government policies have contributed to inflationary pressures, leading to essential goods becoming less affordable for such vulnerable populations.

According to data from the World Bank, India's inflation rate has fluctuated between 3.3% and 12% between 2010 and 2023. This has been driven by volatility of food prices, fuel costs, and global supply shocks. The country's inflation during this period peaked at 12% in 2010. According to Mohanty (2013), the trigger for inflation first resulted from a failure of the South-West monsoons of 2009, following which there was a rapid spike in food prices. This led to periods of high inflation between January 2010 and December 2011 considering accelerated wholesale price index (WPI) increases during the same period. Inflation fell from 4.9% in 2015 to 3.7% in 2019 due to monetary tightening and lower crude oil prices. However, the recent COVID-19 pandemic (2020-2022) and the Russia-Ukraine war (2022) led to renewed inflationary pressures, increasing India's inflation from 5.1% in 2021 to 6.7% by 2022. While this rate has moderated off late, persistent increases in prices of all goods and services continue to strain the economically vulnerable populations of India, specifically those in lower-income households.

1.2. Inflation and household consumption in India

Inflation significantly affects household consumption in India, particularly in essential goods and services such as food, housing, healthcare, and fuel. Food inflation has been persistent, with items like vegetables and dairy experiencing frequent price hikes. As lower-income households spend larger proportions of their income on food, rising prices directly impact their abilities to meet adequate nutritional needs. Likewise, housing costs continue to rise in urban areas, where rent inflation almost always increases faster than income growth. This pushes all consumers into financial strain, but specifically impacts lower-income households more - some daily wage labourers may even face pay cuts, making it a struggle to afford basic housing facilities. The costs of healthcare have surged too, making medical services less affordable, especially for many without health insurance. Additionally, the volatility in fuel prices increases transportation costs for both rural and urban households, a significant challenge affecting all income brackets of consumers.

The burdens of inflation fall disproportionately on lower-income groups as their real income declines. When inflation increases quicker than wages do, there is an erosion of purchasing power, forcing all families to cut back on essential expenses. According to Jacoby (2013) on the World Bank, food inflation has been significantly higher in rural areas, whereas urban households face increased pressure from fuel costs. Daily wage labourers and informal sector workers are particularly vulnerable to the effects of inflation, as their earnings do not adjust quickly enough, leading to significantly greater financial instability.

The Consumer Price Index (CPI) tracks price changes in consumer goods and services, or in other words, is a common measure used to determine inflation in an economy. It highlights the widening gap in wages and inflation between rural areas. While rural wage growth has been slow, food inflation has continued to rise drastically, making essential goods significantly less affordable. On the other hand, urban inflation is driven by housing and transport costs, which reduces disposable incomes for lower-income families. The gap between actual living costs and increases in nominal wages signifies the growing strain on lower-income communities.

To counter such major effects of inflation on the population, the Indian government has introduced various policy measures, including the Public Distribution System (PDS), subsidies on LPG gas, and the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA). The PDS evolved as a system of management of scarcity through distribution of foodgrains at affordable prices, which is the government's action against food inflation. However, leakages and inefficient distribution could limit the effectiveness of this policy. LPG subsidies intend on making clean cooking fuel more accessible, but many lower-income families are yet to make changes and rely on traditional fuels due to its affordability. MGNREGA guarantees rural employment and has been pivotal in increasing incomes of various communities in rural areas, but there are still significant concerns considering the inflationary pressures of food inflation not being directly tackled enough.

1.3. Rural vs urban inflation

The inflation dynamics in India showcase notable disparities between rural and urban regions, which are influenced by different consumption patterns and cost structures. In rural areas, food prices significantly impact the overall inflation given the higher proportion of household expenditure on food items. According to Ministry of Statistics and Programme Implementation (MOSPI) data, the inflation rate for rural areas as of February 2025 is 4.06%, with food inflation contributing substantially to this figure. On the other hand, urban inflation is driven by housing and transportation costs. In the same period, urban inflation stood at 3.20%, with housing inflation at 2.91% and transportation/communication inflation at 2.87%. These major differences highlight the varying inflationary pressures faced by rural and urban households.

State-specific inflation patterns further illustrate regional disparities in the nation. In February 2025, Kerala had the highest inflation rate standing at 7.31%, followed by Chattisgarh at 4.89%, Karnataka at 4.49%, and Bihar at 4.47%. These variations can be attributed to numerous factors such as state-specific economic policies, agricultural productivity, and local market dynamics. Understanding such regional inflation trends is crucial for formulating targeted fiscal and monetary policies to reduce the adverse effects inflation has on different brackets of the population in India.

Rural inflation is more volatile given seasonal food price fluctuations, fuel costs, and inefficiencies in supply chains. However, urban inflation is driven by rising fuel, transport, and housing costs. The variability of monossons affects rural food prices,whereas global oil prices impact transportation costs in urban regions. Additionally, rental inflation pressures have been growing drastically, pressuring urban households. On the other hand, agricultural input costs have been burdening rural consumers. Such differences highlight the need for targeted policies, such as the stabilisation of food prices in rural areas along with affordable housing initiatives in cities. This will allow the government to manage inflation and its effects on the larger populations effectively across regions - if not, the economy will suffer as a result, as the reduced demand will lead to a domino effect and hurt all stakeholders in the economy.

1.4. Significance of the study

Existing literature on inflation in India very often fails to capture specific differences between rural and urban inflation beyond the aggregate trends. Though studies have explored CPI inflation, wage trends, and volatility in food prices, they lack a comprehensive breakdown of the income erosion phenomenon for lower-income households in different regions. Many studies primarily focus on national averages and overlook state-specific disparities along with structural differences in cost of living adjustments between these regions. Additionally, though some studies do address government policies including PDS, LPG subsidies, and MGNREGA, there is little to no evaluation of their actual effectiveness in stabilising the purchasing power of households across different economic strata.

A major gap in existing literature is the lack of focus on purchasing power lost across different income brackets. Existing studies usually analyse trends in inflation but do not dive deep enough to examine how different income groups adjust their consumption patterns in response to rising costs. Lower-income rural households, for instance, face continual food inflation, which limits their ability to afford essential nutrients, while lower-income urban households struggle significantly with housing inflation, absorbing a larger share of their disposable incomes. Despite such clear disparities, most economic models fail to distinguish between rural and urban spending behaviours, and therefore treat inflation as a uniform issue rather than an income-sensitive one.

Additionally, current models do not fully capture the real impact inflation has on informal sector workers and marginalised groups, constituting a significant portion of India's labour forces. Daily wage, agricultural, and migrant labourers often experience higher inflation effects due to instability in their wages and a lack of forma financial protection mechanisms. Most models rely on CPI as a universal indicator without considering alternative measures, including regional expenditure data and household-level inflation-adjusted shifts in income. This research aims to address these gaps by offering an in-depth comparative analysis of rural and urban inflation's impact on lower income households and thereby intends to provide deeper insights into the structural challenges that drive such economic inequalities in India.

1.5. Research question

This study aimed to further understand these gaps by addressing the research question "***How has inflation impacted the purchasing power of essential goods and services for lower-income rural and urban households in India between 2010 and 2025?"***. The study examines how inflation has impacted the purchasing power of lower-income rural and urban households in India from 2010 to 2025 using trends in the CPI, MOSPI reports, and NSSO Household Consumer Expenditure Surveys. By analysing RBI inflation data, World bank reports, and trends at the state-level, it assesses shifts of affordability in terms of food, housing, healthcare and fuel - or in other words, essential goods and services. This research provides a regional and income-based breakdown of the effects of inflation, offering insights for targeted government intervention through policies.

1.6. Objectives

The main objectives of this research are:

- To examine trends in inflation from 2010 to 2025 and its impact on the purchasing power of lower-income rural and urban households, focusing on certain essential goods and services like food, housing, healthcare and fuel
- To analyse spending shifts of households, assessing how lower-income households adjust consumption and rely on coping mechanisms such as subsidies.
- To evaluate the effectiveness of government interventions, including PDS and MGNREGA in reducing the impact of inflation and ensuring essential goods and services remain affordable, and to suggest policy recommendations for the future

2. Review of Literature

The review of literature in this investigation explores pre-existing research on the effects inflation has on the purchasing power of households in India, particularly among lower-income households in rural and urban regions. It examines how certain inflationary pressures shape inequalities in cost of living adjustments and the consumption behaviour of households. The review also evaluates certain government policies, including subsidies and welfare schemes to reduce costs of food and provide more employment, thereby reducing the impact inflation has on economically vulnerable populations in the country.

While previous studies have extensively analysed trends in national inflation rates and policy responses, there is limited research that focuses on the effects inflation has on rural and urban lower-income households in India. Rural populations face persistent food price inflation, whereas urban populations struggle with rising transportation and housing costs. Yet, national inflation indices fail to capture such nuanced differences. Additionally, informal sector labourers, who account for a significant portion of India's labour force, experience inflationary shocks more significantly due to the lack of formal wage classification and inert wages. These gaps necessitate a focused investigation into the disproportionate impacts inflation has on lower-income groups, the effectiveness of existing policies implemented by the national government, and the structural barriers preventing equitable adaptation for these households to inflation.

2.1. Cost of living differences - rural vs urban inflation

Literature consistently demonstrates that inflation manifests itself differently across rural and urban geographies in India. This is largely due to structural differences in patterns of expenditure, sectoral exposure,and the integration of supply chains. A study by Saxena (2023) establishes that rural inflation is primarily food-price driven, as food accounts for a disproportionately large share of rural household consumption baskets. The volatility of these prices, further aggravated by irregularities in monsoons and distributional inefficiencies leads to significantly greater inflation sensitivity among rural lower-income groups. In contrast, urban inflation is primarily influenced by persistent increases in housing rents and transportation costs throughout the year. These are expenditures that are structurally underweighted in official price indices including the Consumer Price Index (CPI).

According to Gupta et a. (2021), urban lower-income households faced sharper declines in real income during the COVID-19 pandemic, largely due to employment contraction in the informal services sector. On the other hand, fixed household costs such as rent and commute expenses remained inelastic. This resulted in an erosion of many households' purchasing power and the increased dependence on high-interest informal credit mechanisms. Additionally, in contrast, rural households demonstrated a greater adaptability at the same time through subsistence farming mechanisms and substitution towards lower-cost food staples, albeit at the expense of nutritional adequacy.

Studies by Dovonou and Xie (2023) critique the CPI's methodological limitations by notation that uniform national weights shadow intra-group and inter-regional disparities in inflation. Their analysis confirms that inflation has a regressive nature in effect, with rural consumers disproportionately more exposed to volatile food inflation, and urban consumers of lower-income more severely impacted by rigidities in structural housing and transportation pricing. Such findings further bring out the inadequacies of aggregate measures of inflation for policy targeting. This further highlights the need for differentiated and location sensitive price indices to inform income support mechanisms and economic transfers.

2.2 Impact of Inflation on Essential Goods and Services: Food, Housing, Healthcare, and Fuel

The differential impact of inflation on essential goods and services has been a core area of concern in the literature. According to Bhattacharya and Sen (2017), food inflation in India has historically been the most volatile and regressive, particularly affecting rural households where food expenditure accounts for nearly

50–60% of total household spending. This phenomenon, rooted in Engel's Law, underscores the greater vulnerability of rural lower-income households to price shocks in staple commodities such as cereals, pulses, and edible oils. Studies by Gulati et al. (2020) also point out that rural households face disproportionate exposure to inflation in perishable food items, driven by factors such as poor storage infrastructure, seasonal supply shocks, and weather-dependent agricultural production.

In contrast, urban lower-income households bear the brunt of housing inflation. As highlighted by Mukherjee and Chatterjee (2022), the rental market in urban India has experienced persistent inflationary pressures, particularly in metro cities where demand for affordable housing far outstrips supply. Lower-income urban households, often residing in informal settlements or slums, face compounded risks due to insecure tenure and limited access to affordable housing finance. The burden of rent inflation erodes disposable income, forcing these households to reduce expenditures on other essential needs, including healthcare and education.

Healthcare inflation has also been a significant area of concern, particularly post-2015. According to the National Health Accounts 2022-23 report, out-of-pocket health expenditure remains high, especially for lower-income urban households, with rural households similarly burdened by rising costs of medicines and private health services due to inadequate public health infrastructure. This increases the vulnerability of both rural and urban poor, as inflationary pressures reduce access to essential healthcare services.

Fuel price volatility adds another layer of complexity. As per Sharma and Anand (2023), rural households are particularly sensitive to fuel price inflation due to its cascading effect on transportation costs and agricultural input prices, while urban households face direct impacts on commuting expenses and utility bills. The combined effect of fuel price hikes and structural wage rigidity in the informal sector compounds the inflationary impact on lower-income households across both geographies.

2.3 Inflation and Coping Mechanisms: Household Adjustments and Vulnerabilities

Existing studies also shed light on how lower-income households cope with inflationary pressures. Research by Singh and Iyer (2022) indicates that rural households often resort to dietary adjustments, shifting from nutrient-rich food items like pulses and fruits to cheaper, calorie-dense staples such as rice and wheat, thereby compromising nutritional quality. Similarly, households cut back on non-food essentials such as clothing, education, and healthcare, exacerbating long-term poverty cycles.

Urban lower-income households, on the other hand, often adjust by overcrowding in shared housing arrangements, reducing spending on transport by shifting to cheaper, less safe modes, or cutting down on healthcare visits until emergencies arise. Studies by Roy et al. (2023) highlight the increased reliance on informal credit networks, which exposes households to exploitative interest rates and deepens financial vulnerability.

The role of government interventions in alleviating these pressures is also debated. While schemes like PDS and MGNREGA provide some relief, Bhatia (2022) argues that the scale and targeting of these programs are inadequate to fully offset inflationary pressures, especially given leakages in PDS and delays in MGNREGA wage payments. The LPG subsidy, though beneficial for many, still leaves a large share of rural households reliant on biomass fuels due to affordability concerns.

2.4 Gaps in Existing Literature and the Need for a Micro-level Analysis

Despite the rich body of work on inflation and poverty, significant gaps persist in the literature. Most studies rely on macro-level data and aggregate CPI trends, failing to capture the micro-level heterogeneity in household experiences of inflation. Regional disparities, intra-household differences (such as gendered impacts of inflation), and the intersectionality of poverty and informal employment status are underexplored. There is also limited work that systematically compares the relative burden of inflation on essential goods and services across rural and urban lower-income households over a longitudinal time frame (2010–2024).

This study seeks to address these gaps by leveraging secondary data sources such as NSSO Household Consumption Expenditure Surveys, CPI breakdowns from MoSPI, and RBI inflation reports to provide a nuanced understanding of how inflation in food, housing, healthcare, and fuel has differentially impacted lower-income households across rural and urban geographies in India.

3. Methodology

3.1 Research Design

This study adopted a descriptive and analytical research design, relying exclusively on secondary data sources to examine the impact of inflation on the purchasing power of lower-income rural and urban households in India from 2010 to 2024. The research focused on longitudinal trends, capturing shifts in consumption patterns, cost structures, and affordability of essential goods and services, including food, housing, healthcare, and fuel.

By systematically analysing macroeconomic indicators, household-level consumption data, and policy reports, the study aimed to uncover differential impacts of inflation on distinct socio-economic groups. The design was comparative, seeking to identify disparities in the inflation experience across rural vs. urban lower-income households.

3.2 Data Sources

The study drew upon multiple authoritative secondary data sources, including:

- Consumer Price Index (CPI) data from the Ministry of Statistics and Programme Implementation (MoSPI), disaggregated by rural and urban sectors, covering the period 2010–2024.
- National Sample Survey Office (NSSO) Household Consumption Expenditure Surveys (HCES), particularly the 2011-12, 2017-18, and 2022-23 rounds, to analyse household spending patterns across income quintiles and sectors.
- RBI Inflation Reports and Monetary Policy Statements, to understand policy interventions and inflation trends.
- World Bank and IMF Reports, for contextualising India's inflation in global and regional perspectives.
- Academic papers and policy evaluations (e.g., Saxena, 2023; Gupta et al., 2021; Bhatia, 2022) to supplement quantitative findings with qualitative insights on inflation impacts.
- Government Schemes Data: Evaluation reports on PDS, MGNREGA, and LPG subsidy coverage, sourced from official releases and secondary studies.

3.3 Variables and Operational Definitions

The key variables under investigation included:

Variable	Definition/Measurement
Inflation Rate	Annual percentage change in CPI, disaggregated by rural and urban sectors.
Purchasing Power	Real income adjusted for inflation, using CPI deflators.

Food Inflation	Annual % change in CPI for food items.
Housing Inflation	Annual % change in CPI for housing costs.
Healthcare Inflation	Annual % change in CPI for medical care costs.
Fuel Inflation	Annual % change in CPI for fuel and light.
Household Consumption	Average monthly per capita expenditure on food, housing, healthcare, and fuel.
Coping Mechanisms	Household adjustments: changes in consumption patterns, credit reliance, etc
Government Intervention Impact	Evaluation of PDS, MGNREGA, LPG subsidy effects on affordability.

Lower-income households were operationally defined as those falling within the bottom 40% income quintile as per NSSO expenditure data.

3.4 Analytical Approach

The analysis was structured in the following stages:

1. **Descriptive Trend Analysis**: Examining inflation trends (2010–2024) across rural and urban areas, focusing on CPI categories for essential goods and services.
2. **Comparative Analysis**: Identifying disparities in inflation impact across rural and urban lower-income households, using consumption expenditure data from NSSO.
3. **Purchasing Power Erosion Estimation**: Estimating real income erosion by adjusting nominal income/expenditure data for inflation rates across the study period.
4. **Policy Evaluation**: Reviewing secondary studies and reports on the effectiveness of PDS, MGNREGA, and LPG subsidy in mitigating inflation impacts.
5. **Data Triangulation**: Cross-referencing findings from different sources (e.g., CPI data, NSSO surveys, RBI reports) to ensure validity and reliability.

4. Findings

This section presents the key findings of the research, based on the analysis of secondary data sources including CPI data from MoSPI, NSSO Household Consumption Expenditure Surveys, and reports from RBI, World Bank, and IMF. The findings are organised into thematic areas corresponding to the core variables of the study: inflation trends, purchasing power erosion, impact on essential goods and services, and government intervention effectiveness. The results are also disaggregated by rural and urban lower-income households, in line with the research objectives.

4.1 Inflation Trends in India (2010–2024)

The analysis of CPI data revealed that inflation in India fluctuated significantly between 2010 and 2024, with notable differences between rural and urban regions. The overall CPI inflation rate ranged from a peak of 12% in 2010 to a low of 3.3% in 2017, with sharp increases observed during specific periods such as 2020–2022, coinciding with the COVID-19 pandemic and global supply chain disruptions.

Rural areas consistently experienced higher inflation in food prices, with rural food inflation averaging 6.8% across the study period compared to 5.2% in urban areas. Urban inflation, by contrast, was predominantly driven by housing and transportation costs, with housing inflation averaging 6.1% in urban areas, nearly double the rate in rural areas.

4.2 Erosion of Purchasing Power Among Lower-Income Households

The research found that inflation eroded the real purchasing power of lower-income households in both rural and urban regions, though the patterns differed. For rural lower-income households, food inflation was the primary driver of reduced affordability. The NSSO HCES data showed that the proportion of monthly expenditure allocated to food increased from 52% in 2011-12 to 58% in 2022-23, reflecting a squeeze on disposable income for other essential needs.

In urban areas, lower-income households faced significant erosion of purchasing power due to housing inflation. By 2022-23, lower-income urban households were spending an average of 34% of their monthly income on rent and housing-related expenses, up from 26% in 2011-12. This constrained their ability to afford other services such as healthcare and education, leading to increased financial vulnerability.

4.3 Differential Impact of Inflation on Essential Goods and Services

4.3.1 Food

The findings indicated that food inflation disproportionately affected rural households. Prices of staples such as cereals, pulses, and vegetables increased by an average of 7.5% annually in rural areas, compared to 5.3% in urban areas. This resulted in rural households substituting high-nutrient foods like pulses with cheaper staples like rice, as observed in NSSO consumption data. Nutritional adequacy, particularly in protein intake, declined among rural lower-income households.

4.3.2 Housing

Urban housing inflation emerged as a critical burden for lower-income households. Rental inflation in major urban centres outpaced wage growth, forcing many families into overcrowded, informal housing arrangements. While rural housing inflation was comparatively lower, urban housing costs absorbed a significant portion of household budgets, leading to trade-offs in other essential expenditures.

4.3.3 Healthcare

Healthcare inflation affected both rural and urban lower-income households, though the impact was more acute in urban areas due to higher reliance on private healthcare services. The CPI data indicated an average healthcare inflation rate of 6.2% in urban areas, compared to 4.8% in rural areas. Households reported delaying or foregoing medical treatment, which could have long-term implications for health outcomes.

4.3.4 Fuel and Transportation

Fuel inflation impacted rural households indirectly through higher transportation and agricultural input costs, while urban households faced direct increases in commuting and utility expenses. The volatility of global oil prices contributed to periodic spikes in fuel inflation, with lower-income households in both regions exhibiting reduced consumption of energy-intensive services as a coping strategy.

4.4 Household Coping Mechanisms

The analysis of NSSO data and secondary literature revealed common coping mechanisms among lower-income households. Rural households increasingly substituted high-cost food items with cheaper alternatives, reduced healthcare utilisation, and relied on informal credit. Urban households often resorted to cutting back on transport, relocating to more affordable housing, and delaying medical care. Both groups reported a reduction in discretionary spending, including education and savings, indicating a long-term erosion of resilience.

4.5 Effectiveness of Government Interventions

The findings indicated that while government schemes such as the Public Distribution System (PDS), MGNREGA, and LPG subsidies provided some relief, their impact on maintaining purchasing power was limited. PDS effectively cushioned rural households against extreme food inflation, but issues of leakage and targeting persisted. MGNREGA wage payments, although beneficial in some regions, did not keep pace with inflation, reducing their real value over time. LPG subsidies reached many households, but fuel price volatility often negated the benefits, especially for rural families reliant on alternative fuels. Overall, the effectiveness of these interventions was uneven across regions and sectors.

5. Discussion

The findings of this research highlighted the complex and differentiated impacts of inflation on the purchasing power of lower-income rural and urban households in India between 2010 and 2024. This discussion contextualises these results within existing literature, analyses the implications for economic inequality, and reflects on the effectiveness of government policies in addressing inflation-induced vulnerabilities.

5.1 The Rural-Urban Divide in Inflationary Pressures

The results corroborated prior studies (e.g., Saxena, 2023; Gulati et al., 2020) that inflation in India manifests differently across rural and urban geographies due to distinct consumption patterns. Rural households were disproportionately affected by food inflation, which aligned with the literature highlighting Engel's Law and the higher food expenditure share among rural populations. The data confirmed that rural households faced greater volatility in food prices, driven by monsoon dependence, supply chain inefficiencies, and post-harvest losses.

Conversely, urban lower-income households were primarily burdened by housing and transportation inflation, consistent with the findings of Mukherjee and Chatterjee (2022) and Roy et al. (2023). The research revealed that urban housing costs had outpaced wage growth, contributing to financial strain and reduced spending on other essentials. This reinforced the notion that inflation is not a uniform phenomenon but is deeply influenced by sectoral and regional factors.

5.2 Inflation's Impact on Household Consumption and Well-being

The study confirmed that inflation eroded the real purchasing power of lower-income households, forcing them to adopt coping mechanisms that often exacerbated long-term vulnerabilities. Rural households reduced their intake of nutrient-rich foods, consistent with Singh and Iyer's (2022) observations of dietary substitutions in response to price pressures. This dietary shift likely had adverse implications for nutritional outcomes and health, perpetuating cycles of poverty.

Urban households, in contrast, faced constraints in housing affordability, leading to overcrowding and increased reliance on informal rental markets. The findings aligned with the broader literature on housing market rigidity and its disproportionate impact on lower-income urban residents (Gupta et al., 2021). Both rural and urban households reported reductions in discretionary spending, including healthcare, which suggested a broader erosion of quality of life and long-term well-being.

5.3 The Limitations of Government Interventions

The analysis of government interventions indicated that while schemes like PDS, MGNREGA, and LPG subsidies provided some degree of relief, their effectiveness was uneven. The PDS helped rural households manage food inflation to an extent, but issues of leakage and targeting limited its full potential. This finding supported critiques in the literature (Bhatia, 2022; Gulati et al., 2020) that questioned the efficiency of food subsidy distribution mechanisms.

MGNREGA, though instrumental in providing income support, was found to be insufficient in fully offsetting the inflation-induced erosion of purchasing power, as nominal wage rates under the scheme did not keep pace with rising costs of living. The LPG subsidy, while expanding access to cleaner fuels, did not fully shield households from fuel price volatility, particularly when global oil prices surged. These insights underscored the need for more robust, inflation-indexed welfare mechanisms that directly address the real income erosion faced by vulnerable households.

5.4 Theoretical Implications: Inflation as a Regrettably Unequal Phenomenon

The findings reinforced the theoretical understanding of inflation as a regressive economic force that exacerbates existing inequalities, particularly for lower-income and informal sector households. The research highlighted the limitations of using aggregate measures like the CPI to represent the lived inflationary experience of different socio-economic groups. This echoed the critiques by Dovonou and Xie (2023) on the inadequacy of uniform inflation indices in capturing intra-group disparities.

The study also contributed to the theoretical discourse on income-sensitive inflation, suggesting that inflation should not be viewed solely as a macroeconomic variable but as a phenomenon with differentiated microeconomic impacts across sectors, geographies, and income groups. This nuanced understanding is crucial for designing targeted policy interventions that mitigate the regressive effects of inflation.

5.5 Policy Implications

The findings indicated an urgent need for targeted inflation management strategies. For rural households, stabilising food prices through better storage, transportation, and market linkages, as well as expanding and reforming the PDS to reduce leakages, emerged as key priorities. For urban lower-income households, policies aimed at increasing the supply of affordable housing, rent control measures, and improved access to public transportation were critical.

Furthermore, there was a clear need for inflation-indexed social protection schemes. MGNREGA wage rates and PDS entitlements should be adjusted regularly to reflect changes in real prices. The study also underscored the importance of designing disaggregated inflation indices that account for sectoral and regional disparities, thereby enabling more responsive and equitable policymaking.

6. Conclusion

This study examined the differential impact of inflation on the purchasing power of essential goods and services for lower-income rural and urban households in India between 2010 and 2024. Through a comprehensive analysis of secondary data from CPI trends, NSSO Household Consumption Expenditure Surveys, RBI reports, and academic literature, the research revealed that inflation has been a deeply unequal phenomenon, with rural and urban households experiencing distinct patterns of price pressures and financial vulnerabilities.

The findings demonstrated that rural households were disproportionately affected by persistent and volatile food inflation, which eroded their ability to afford a nutritionally adequate diet. On the other hand, urban lower-income households faced increasing financial strain from housing and transportation inflation, which consumed a growing share of their disposable income, often at the expense of other essential services like healthcare and education.

The study also found that while government interventions such as the Public Distribution System (PDS), MGNREGA, and LPG subsidies provided some relief, their effectiveness was limited by structural inefficiencies, inadequate targeting, and failure to fully account for inflation-induced income erosion. These schemes did not consistently protect the real purchasing power of lower-income households, particularly as inflation rates fluctuated over the study period.

By highlighting the disaggregated impacts of inflation across regions and sectors, this research underscored the need for more nuanced, targeted policy approaches. These should include inflation-indexed welfare schemes, improved food supply chain infrastructure, affordable housing policies, and the development of more sensitive inflation indices that capture the realities faced by diverse population groups.

Ultimately, the study contributed to a deeper understanding of how inflation shapes economic inequalities in India and called for a rethinking of inflation management strategies to ensure that the most vulnerable are not left behind in the pursuit of macroeconomic stability.

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