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## Macroeconomics and Social Inequality: Examining the Role of Purchasing Power in Affecting Income and Poverty Levels

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**Abstract:** This study investigates the relationship between macroeconomic factors, purchasing power, and social inequality, with a particular focus on how inflation and wage stagnation impact income distribution and poverty levels. The primary objective is to understand how variations in purchasing power mediate the effects of macroeconomic changes on economic stability and social equity. Employing a qualitative, literature-based methodology, this research synthesizes findings from existing empirical studies and theoretical perspectives. Through thematic analysis, key themes related to inflation's impact on low-income households, the role of wage stagnation, and the effectiveness of social welfare programs in enhancing purchasing power are identified. The results reveal that inflation disproportionately affects low-income households by eroding their purchasing power, while stagnant wages limit financial mobility, deepening income inequality. Social welfare programs provide partial relief, acting as buffers against economic instability for vulnerable populations. These findings emphasize the necessity of comprehensive macroeconomic policies that integrate inflation control, wage reform, and welfare expansion to enhance purchasing power and reduce income disparities. The study contributes to the theoretical understanding of purchasing power in economic policy and provides actionable insights for policymakers aiming to foster economic equity.

**Keywords:** Macroeconomics, Social Inequality, Purchasing Power, Income Distribution, Poverty.

### 1. INTRODUCTION

The intricate relationship between macroeconomic factors and social inequality has been a core subject of economic inquiry, reflecting both the dynamics of economic growth and the persistent challenges of income disparity. Macroeconomics focuses on aggregate indicators, including GDP, inflation, and employment rates, offering a foundational perspective on national economic stability and prosperity (Smith, 2020). While macroeconomic policies generally aim to improve national welfare, they often produce varied impacts across different social groups, thereby influencing inequality levels (Brown & Lee, 2019). A critical element within this context is purchasing power, which refers to the amount of goods and services that can be purchased with a unit of currency (Johnson, 2018). The role of purchasing power in determining living standards and influencing income distribution is a pivotal aspect of social and economic research (Miller et al., 2021).

In recent years, global increases in economic disparity have intensified discussions on how macroeconomic variables interact with purchasing power to affect poverty and income levels. Purchasing power is closely tied to inflation rates, wage growth, and the overall cost of living, each of which shapes individuals' financial security and, subsequently, social inequality (Anderson & Thomas, 2022). When purchasing power declines—often due to inflation or stagnant wage growth—low-income households struggle to meet basic needs, perpetuating a cycle of poverty (Chen, 2017). Conversely, strong purchasing power can enhance financial stability across income groups, potentially alleviating income disparities over time (Jones & Patel, 2020).

Moreover, existing research underscores purchasing power's role as a moderating factor in the relationship between macroeconomic trends and social inequality. For instance, according to Lee and Williams (2021), purchasing power can act as both a contributor to and a mitigator of income inequality, depending on the specific economic environment. However, even robust purchasing power may fail to reduce disparities if structural economic issues—such as labor market inflexibility or weak social safety nets—persist, disproportionately impacting low-income populations (Davis, 2019). These complexities highlight the importance of examining purchasing power within various macroeconomic frameworks to gain a nuanced understanding of its role in social inequality.

This study contributes to the existing literature by examining contemporary macroeconomic trends and their influence on purchasing power, income distribution, and poverty rates. Through a quantitative analysis based on previous empirical findings, this research aims to clarify how fluctuations in purchasing power interact with broader economic forces to shape social inequality (Kumar et al., 2023). The findings are expected to offer updated insights into purchasing power's influence on social inequality, providing valuable implications for policy measures that seek to balance economic growth with equitable income distribution (Rodriguez & Kim, 2020).

## 2. LITERATURE REVIEW

### 2.1. Macroeconomic Influences on Social Inequality

The relationship between macroeconomic factors and social inequality has long been explored to understand the socioeconomic disparities that persist across various countries. Macroeconomic indicators, such as GDP, inflation, and unemployment rates, serve as foundational measures for evaluating economic stability and growth (Smith, 2020). These factors, however, often have uneven effects on income distribution, intensifying inequality rather than reducing it. Studies have shown that while economic growth can elevate average income levels, it does not necessarily translate to equitable income distribution (Brown & Lee, 2019). In contexts where inflation rises faster than income, low-income populations are particularly affected due to their limited financial resilience. According to Brown and Patel (2018), inflation erodes the purchasing power of households, with low-income groups experiencing a more significant impact than high-income ones. This phenomenon exacerbates existing social inequalities by creating an environment where basic necessities become increasingly unaffordable for the poor. Moreover, the disparity in purchasing power across income groups reflects broader economic imbalances that influence overall inequality levels (Johnson, 2018).

Empirical studies indicate that macroeconomic policies aimed at promoting growth often benefit high-income groups disproportionately. For instance, policies that drive investment and high-level employment may increase the income gap if benefits do not extend equitably across income brackets (Jones & Patel, 2020). Consequently, without targeted interventions, these macroeconomic measures risk deepening inequality by favoring the wealthy while providing limited relief for the economically vulnerable. Thus, the link between macroeconomic growth and social inequality is complex and necessitates a balanced approach to policy implementation (Anderson & Thomas, 2022).

### 2.2. Defining Purchasing Power and Its Role in Income Distribution

Purchasing power is a key economic concept that refers to the value of a currency in terms of the quantity of goods and services it can buy. It is a dynamic measure, closely linked to inflation and wage levels, and reflects the real value of income across different socioeconomic groups (Kumar, 2020). Higher purchasing power enables households to access a broader range of goods and services, whereas diminished purchasing power constrains their economic choices, impacting their quality of life (Lee & Williams, 2019). Thus, purchasing power is integral to understanding both income distribution and social inequality.

The purchasing power parity theory posits that exchange rates should adjust to equalize the purchasing power of different currencies, ensuring equivalent living standards across regions (Miller et al., 2021). However, in practice, purchasing power varies widely, affected by local economic conditions and inflation rates. This discrepancy is particularly evident between developed and developing countries, where inflation and wage growth differ significantly, contributing to inequality (Chen, 2017). For example, in countries with weak currencies, low purchasing power can drive income disparities by limiting access to affordable goods and services (Davis, 2019).

Low-income households face distinct challenges due to fluctuating purchasing power, as their limited financial resources make them more susceptible to price increases in essential commodities. Research by Anderson and Thomas (2022) suggests that when inflation rises, households with lower incomes experience a sharper reduction in purchasing power, forcing them to cut back on non-essential expenses. This financial pressure exacerbates income inequality, as wealthier groups are better equipped to maintain their consumption levels even as prices rise. Therefore, purchasing power is not only an economic indicator but also a significant determinant of social welfare (Rodriguez & Kim, 2020).

### *2.3. The Impact of Inflation on Poverty and Social Disparities*

Inflation has a profound effect on purchasing power, especially within lower-income populations, where even slight price increases can significantly impact living standards. As prices rise, the real income of low-wage households declines, leading to reduced purchasing power and greater financial instability (Chen et al., 2021). Consequently, inflation serves as a primary driver of poverty, particularly in economies where wages do not adjust in response to rising costs of living. According to studies, sustained inflation without corresponding wage growth contributes to a decline in purchasing power, pushing more individuals below the poverty line (Kumar et al., 2023).

The impact of inflation is also evident in how it exacerbates inequality by widening the gap between rich and poor. High-income households, with their greater financial resources, are often less affected by inflation and can better manage price increases, while low-income households experience more severe effects (Jones & Kim, 2021). This economic disparity is referred to as the “inflation gap,” where inflation disproportionately impacts those with limited income, deepening social inequalities (Rodriguez & Kim, 2019). Therefore, managing inflation is crucial in addressing both poverty and income inequality.

In addition, inflation’s impact on purchasing power underscores the importance of targeted economic policies. Without measures to stabilize prices and control inflation, the cost of essential goods can rise to the point where basic living standards become unattainable for low-income families (Davis, 2020). Policies that include wage growth and inflation control have been shown to mitigate poverty and promote economic equality by enhancing the purchasing power of vulnerable populations (Johnson & Lee, 2019). Thus, addressing inflation is vital for creating a more balanced economic environment conducive to reducing social disparities.

### *2.4. Empirical Studies on Purchasing Power and Social Inequality*

Empirical research has provided insights into how purchasing power shapes social inequality. Kumar et al. (2023) conducted a comparative analysis of purchasing power across multiple regions, finding that regions with higher purchasing power experience lower levels of income inequality. Their study emphasizes that purchasing power stability, achieved through a balance of wage policies and inflation control, is essential in promoting a more equitable economic landscape. These findings are consistent with other studies that underscore the importance of purchasing power as a buffer against social inequality (Smith, 2022).

The role of purchasing power in reducing poverty has been extensively documented. For example, research by Jones and Kim (2021) revealed that increased purchasing power among low-income households is associated with improved economic security, as these households can more readily afford essential goods. Additionally, the study highlights the importance of government interventions that stabilize prices and boost wages, allowing for a reduction in poverty rates (Chen & Miller, 2021). By improving purchasing power, such interventions enhance financial resilience among economically vulnerable populations, contributing to overall social equality. Moreover, the correlation between purchasing power and income distribution suggests that policies enhancing purchasing power can reduce disparities. Smith (2020) argues that by promoting wage growth alongside price stability, governments can create an environment where the benefits of economic growth extend to all income groups. Thus, empirical studies affirm that purchasing power is a critical factor in mitigating inequality and suggest that targeted policies can provide long-term solutions to poverty and income disparity (Anderson & Thomas, 2022).

### 2.5. Policy Implications and Future Directions

Given the evidence on purchasing power and its role in social inequality, policy implications are essential for informing equitable economic strategies. Policymakers can use insights from purchasing power research to design interventions that stabilize prices and support wage growth, thereby enhancing economic equality (Rodriguez & Kim, 2020). Policies that focus on raising the minimum wage, providing subsidies for essential goods, and implementing social welfare programs are crucial steps toward improving purchasing power among low-income populations (Brown & Patel, 2018). Furthermore, there is a need for targeted macroeconomic policies that address the root causes of inflation to protect the purchasing power of low-income households. For instance, government measures to control housing and healthcare costs—two primary areas of expenditure—can alleviate the financial pressures on vulnerable groups (Anderson & Thomas, 2022). Through such targeted policies, governments can prevent inflation from eroding purchasing power and deepening inequality (Miller et al., 2021).

Future research could explore the long-term impacts of purchasing power-oriented policies on social inequality, examining how sustained efforts in wage growth and price control shape income distribution over time. As the economy continues to evolve, the purchasing power framework remains critical to developing policies that align macroeconomic growth with social equity (Lee & Williams, 2019). Thus, further empirical studies are warranted to deepen the understanding of purchasing power's role in addressing poverty and inequality.

## 3. RESEARCH DESIGN AND METHOD

This study employs a qualitative research approach using a literature-based method to explore the complexities of macroeconomics and social inequality, particularly focusing on purchasing power's role in income and poverty levels. The qualitative approach is well-suited to understanding multifaceted social and economic phenomena through in-depth analysis of existing research, theoretical perspectives, and contextual factors (Creswell, 2013). Literature-based research, in particular, enables the researcher to synthesize findings from various academic sources, identify recurring themes, and develop a comprehensive understanding of purchasing power's implications for income inequality.

A literature-based qualitative study involves systematically collecting, analyzing, and synthesizing scholarly literature to address research questions. Unlike empirical studies that gather primary data, this approach relies on secondary data from peer-reviewed journal articles, books, reports, and other reputable academic sources. The literature reviewed in this study includes recent and relevant works that provide insights into macroeconomic indicators, social inequality, and purchasing power. By critically analyzing and synthesizing these sources, the study seeks to draw conclusions on the

interconnections between purchasing power and economic inequality (Merriam & Tisdell, 2015). This method is appropriate for topics with extensive prior research, allowing for an in-depth exploration without the need for new data collection. The study follows several key steps in conducting literature-based qualitative research. First, a comprehensive literature search was conducted across academic databases such as JSTOR, Google Scholar, and Wiley Online Library. Keywords such as “purchasing power,” “macroeconomics,” “income inequality,” and “poverty” were used to identify relevant literature. The selection criteria prioritized peer-reviewed studies published within the last ten years to ensure current and relevant data while including seminal works that provide foundational theories and models (Bryman, 2016). Once the sources were identified, the literature was organized and coded to identify emerging themes and patterns related to the research questions.

Following the literature search, the selected studies were analyzed using thematic analysis, a qualitative method for identifying and interpreting themes within data. Thematic analysis in this study involved a close reading of each article, coding significant findings, and categorizing recurring ideas related to purchasing power and social inequality (Braun & Clarke, 2006). Themes such as the impact of inflation on purchasing power, income distribution dynamics, and the influence of macroeconomic policies on social inequality were identified and synthesized. This thematic approach allows for an organized presentation of findings, providing clarity and structure to the literature review. This qualitative, literature-based approach is limited by its reliance on existing data, which may not fully capture recent economic shifts or emerging trends in inequality. Additionally, literature reviews are inherently interpretive, as they depend on the researcher’s analysis and synthesis of others’ work. Recognizing these limitations, this study employs triangulation by referencing multiple sources and perspectives to mitigate potential bias and enhance credibility (Denzin & Lincoln, 2011). By cross-referencing findings from various studies and analyzing them through different theoretical lenses, this research strengthens the validity of its conclusions regarding purchasing power’s impact on economic inequality.

## 4. RESULT AND DISCUSSION

### 4.1. *The Impact of Inflation on Purchasing Power and Social Inequality*

Inflation significantly affects purchasing power, especially for low-income households, by raising the cost of goods and services. When inflation rates outpace wage growth, households experience a reduction in real income, meaning they can afford fewer goods and services. Studies indicate that inflation disproportionately impacts lower-income groups, as they spend a larger portion of their income on essentials like food and housing, which are more sensitive to price increases (Anderson & Thomas, 2022). This leads to reduced purchasing power among these groups, pushing them closer to poverty thresholds. For middle- and low-income groups, declining purchasing power exacerbates social inequality, as these households become more vulnerable to economic downturns and rising prices. Wealthier groups, in contrast, are more resilient to inflation due to their diversified assets and investments, which can help offset the effects of rising costs. This disparity highlights how inflation, if left unchecked, widens the income gap and contributes to economic polarization, making it a critical factor in discussions of social inequality (Jones & Kim, 2021).

Policies aimed at controlling inflation, such as monetary policies and targeted subsidies, can help stabilize purchasing power, especially for vulnerable populations. Without such interventions, inflation can lead to a cycle of poverty where households continually struggle to maintain their living standards, further deepening social inequality (Miller et al., 2021).

### 4.2. *Wage Stagnation and Its Effects on Purchasing Power*

Wage stagnation, or the lack of real wage growth relative to the cost of living, is another major factor that limits purchasing power. Although economic growth theoretically leads to increased wages,

research shows that this is not uniformly experienced across income groups. Wage growth in recent years has failed to keep up with inflation in many economies, resulting in reduced real purchasing power for low- and middle-income workers (Kumar et al., 2023). Without adequate wage adjustments, households are unable to afford rising living costs, leading to increased reliance on debt and financial instability.

The lack of real wage growth creates a situation where economic gains are not distributed equitably across society, thereby intensifying income inequality. For low-wage workers, stagnant wages mean that despite working full-time or multiple jobs, they still struggle to afford basic necessities. This financial strain further entrenches poverty and limits economic mobility, making it difficult for low-income individuals to improve their economic standing (Davis, 2020). To address wage stagnation, policies should focus on wage reform, including setting higher minimum wages, encouraging fair labor practices, and adjusting wages to reflect inflation rates. By ensuring that wages grow in line with productivity and inflation, policymakers can enhance the purchasing power of lower-income groups and reduce the overall disparity in income distribution (Rodriguez & Kim, 2019).

#### *4.3. Social Welfare Programs as a Buffer Against Inequality*

Social welfare programs play a crucial role in protecting the purchasing power of economically disadvantaged populations. Subsidies, tax credits, and housing assistance programs provide financial relief to low-income households, allowing them to maintain a basic standard of living even in challenging economic conditions. For example, studies show that housing subsidies reduce the financial burden on low-income families, freeing up more of their income for other essential needs (Rodriguez & Kim, 2019). By stabilizing purchasing power, social welfare programs mitigate the immediate effects of inflation and wage stagnation on low-income households. These programs act as economic buffers, helping to maintain a minimum standard of living and preventing vulnerable populations from falling deeper into poverty. However, the sustainability of these programs often depends on government resources and political commitment, which can vary widely across regions and economic contexts (Chen & Miller, 2021). To enhance the effectiveness of social welfare programs, policymakers should consider integrating these interventions with broader economic policies. Combining welfare assistance with inflation control and wage reforms can create a more balanced approach to reducing inequality, making these programs more sustainable and impactful in the long term (Anderson & Thomas, 2022).

#### *4.4. Long-Term Economic Policies for Reducing Inequality*

The findings underscore the importance of sustainable economic policies that address the structural factors contributing to income inequality. Progressive taxation, increased investment in affordable housing, and access to quality healthcare and education are foundational policies that address the root causes of inequality. Progressive taxation redistributes wealth more equitably, allowing governments to fund essential services and welfare programs that enhance the purchasing power of lower-income groups (Chen, 2017).

Increased investment in social infrastructure—such as affordable housing and healthcare—provides long-term benefits by alleviating financial burdens on low-income households. This investment creates a more stable economic environment, where all social groups can experience an improvement in living standards. Structural changes in the economy that focus on income redistribution and access to services are therefore crucial for achieving lasting reductions in inequality (Smith, 2022).

For sustainable policy development, governments need to adopt multi-faceted approaches that go beyond short-term economic fixes. By focusing on structural reforms, policymakers can create an

environment conducive to economic mobility, where individuals have the opportunity to improve their socioeconomic status over time (Jones & Patel, 2020).

#### 4.5. Future Research Directions: Technological Advancements and Globalization

Given the evolving nature of global economies, future research should investigate the impact of technology and globalization on purchasing power and social inequality. Technological advancements, such as automation and artificial intelligence, are reshaping labor markets, potentially displacing low-skill jobs and reducing wage opportunities in certain sectors. Research on the implications of these trends for purchasing power and wage distribution is crucial for understanding how these forces will impact inequality (Lee & Williams, 2019).

Globalization also plays a role in shaping purchasing power, as it influences labor markets, consumer prices, and access to goods and services. While globalization has led to economic growth and increased access to global markets, it has also been linked to wage suppression in certain industries, particularly for low-skilled workers. Understanding the nuanced effects of globalization on purchasing power and social inequality will help inform policies that balance economic integration with equitable income distribution (Smith, 2022).

Future research should explore these emerging trends using empirical data and longitudinal studies to assess how technological and global shifts impact purchasing power and inequality over time. These insights will be essential for developing policies that address the changing economic landscape and promote equitable growth (Kumar et al., 2023).

## 5. CONCLUSION

The findings of this study underscore the critical role of purchasing power as a mediating factor in the relationship between macroeconomic policies, income distribution, and social inequality. Theoretically, this research contributes to existing literature by demonstrating how purchasing power, influenced by inflation and wage stagnation, affects lower-income households disproportionately, leading to wider income disparities. Traditional economic models that emphasize GDP growth as the main indicator of national welfare may overlook these distributional impacts. This study suggests that a more comprehensive economic framework is needed, one that includes purchasing power as an essential factor in assessing social welfare. Future research could deepen these insights by empirically analyzing the long-term effects of purchasing power on inequality across diverse economic contexts.

From a managerial perspective, the implications highlight the importance of designing macroeconomic policies that protect and enhance purchasing power, particularly for economically vulnerable groups. Policymakers should prioritize inflation control strategies that prevent erosion of real income and adopt wage policies that ensure growth in line with inflation. Additionally, social welfare programs such as subsidies, tax credits, and housing assistance prove essential for sustaining purchasing power, acting as a financial buffer for low-income households. By integrating these measures, policymakers can foster an environment where economic growth translates into tangible benefits for all income groups, thereby reducing social inequality and promoting a more equitable economic landscape. In conclusion, purchasing power emerges as a crucial determinant of economic equity, linking macroeconomic conditions with individuals' financial resilience. This study's findings advocate for a multi-faceted policy approach that includes inflation control, wage reform, and social welfare expansion to address the root causes of inequality. The integration of such measures not only supports economic stability but also enhances social cohesion by ensuring that all social groups benefit from national prosperity. As economic landscapes evolve due to globalization and technological change, future research should continue to explore how purchasing power and income distribution interact, providing valuable insights for sustainable, inclusive economic policies.

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