

Analysing Household Budget Adjustments in Response to Rising Prices in Nigeria

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Abstract

This study analyzed household budget adjustments in response to rising prices in Nigeria via ex-post facto research design. Secondary data on household budget adjustments (total household income, and household final consumption - also known as private consumption expenditure) and rising prices (measured by consumer price index) were obtained from the Central Bank of Nigeria and National Bureau of Statistics bulletins during the period 1991 - 2024. Using an unrestricted vector auto-regression model, the study revealed that household budgets adjusted in response to rising prices significantly. This finding is partly explained by the fact that when there is hike in prices or inflation, it would make households to adjust or re-adjust their budgets in tandem with current inflation rates. The study concludes that during the periods under investigation, household budget adjusts significantly due to exogenous variation in rising prices of past values. On the basis of the findings, the study recommends that the government should put effective and efficient control measures in place that can help control and stabilize inflation. The study contributes to knowledge by establishing that household budget adjustments significantly and negatively respond to rising prices. Finally, the study fills the gap in economics and finance literature on the linkage between household budget adjustments and rising prices in Nigeria by extending data till 2024.

Keywords: Households budget; Rising prices; Inflation; Budget adjustments; Fixed income

JEL Classification: P44; H31

1. INTRODUCTION

In the economics and finance literature, the nexus between household budgets adjustments rising prices (termed inflation) has over the years, been a foremost concern for governments, policymakers, economists, and researchers in developed and developing countries. As noted by Oladejo, et al (2025), rising prices/inflation is a hike in general price levels, resulting from differences between money and trade requirement in a country. Udochukwu, et al (2024) opined that rising prices is an indispensable economic driving-force that has an undulating effect on household budgets, financial stability, standard of living, and the general economic situation. According to Chaudhry, Qamber and Farooq (2024), inflation exerts momentous effects on household budgets differently depending on their income levels, spending patterns, or consumption patterns, among others.

Consequently, when prices of commodities go up, it makes household to realign their patterns of consumptions, thus decreasing discretionary expenditure, which makes households to readjustment their budgets (Ogunleye & Ayoola, 2021; Chaudhry, Qamber & Farooq, 2024). Inflation is expressed as the increase in prices of commodities; it is a continual rise in general price level of commodities over an elongated period of time (Ali & Asfaw, 2023). Rising prices has remained one of the sternest macroeconomic issue confronting households. In this study, rising prices was conceptualized as Consumer Price Index (CPI). The National Bureau of Statistics (NBS, 2025) sees CPI as reflection of changes in consumption of goods and services, and retail sales in a given period.

In a practical parlance, as prices of commodities increases, the purchasing-power of the Naira weakens, thus placing significant twist on household budgets particularly for those with small or fixed-incomes (Kaur, 2023). Nigerian has witnessed towering and volatile rising prices, which has been attributable to numerous dynamics such as volatility in exchange rates, fuel subsidy removal, external shock occasioned by COVID-19 pandemic, insecurity and disorder in agricultural supply chains (The World Bank, 2023; and The National Bureau of Statistics, 2024). This has perhaps had severe implications for household economic stability mostly for Nigeria where over 40 percent of its population lives below the poverty line (The World Bank, 2022).

Predominantly, households experience the effect of rising prices the most simply because rising prices erode real income, deepen purchasing-power and coerce changes in consumption patterns (Akinrinola & Olowofeso, 2020). In response, households therefore may strive to adjust their budgets in order to reallocate spending towards necessities such as food, rents, transportation and education; these adjustments as opined by Ogunleye and Ayoola (2021), vary across income group, geographical location and socio-demographic attributes, thus raising imperative questions about resilience and inequality, particularly in era of economic downturns.

The National Bureau of Statistics (NBS, 2024, 2025) revealed that inflation rate eased to 23.2 percent relative to rate of 24.48 percent in January 2025 percent. This therefore portends a slight increase in rising prices (inflation), thus emphasizing how it can change household budgets. Given the stern effect rising prices may have on household budgets, the government has made concerted effort to formulate policies aimed at cushioning rising prices. Regardless of the move by the government to cushion rising prices, significant improvement has not been made, particularly on the purchasing power of the Naira, hence making it cumbersome for households (most especially, low- and fixed-income brackets households) to adjust to this reality.

Consequently, there is the need to investigate how rising prices measured by Consumer Price Index- CPI) influence household budgets (Total Household Income, and Household Final Consumption - also known as Private Consumption Expenditure). The study also focuses on whether individuals would adjust their spending patterns based on their level of income, and how they would react to rising prices in areas of spending, savings, and investments. To be able to achieve this, the remaining section of this paper was divided into: review of literature, methodology, results, conclusion and recommendations.

2. REVIEW OF LITERATURE

2.1 Households Budget Adjustments

Households frequently use a range of coping mechanisms in reaction to inflationary pressures in order to sustain consumption and weather economic shocks. Depending on factors including household income, location, availability to social support, and the rate of inflation, these tactics might be either short-term or long-term (Akca, 2025). Modifying consumption patterns is a popular coping mechanism. Families frequently cut back on the amount of meals they eat each day, switch to less expensive food items, or replace previously purchased things with less expensive ones (Adaramola & Dada, 2020). During times of high inflation, households usually move from diets heavy in protein to those high in carbohydrates, or from imported to local food goods (Ubah, 2019).

Another important tactic is income diversification. Families may begin petty trade, take on several informal professions, or involve additional family members—particularly women and children—in revenue-generating endeavour (Ude & Ekesiobi, 2018). Even though these pursuits could increase wealth temporarily, they frequently come at the expense of education or appropriate medical treatment. Other typical financial coping strategies include depleting saving, taking out loans from family/unofficial lenders and liquidating household asset (Umar & Umar 2022). These tactics, however, frequently make households more susceptible to shocks in the future and could not be sustainable.

Households in rural Nigeria may also depend on bartering, subsistence farming, or community-based support networks such as rotating savings and credit associations (Ogu, Adagiri & Abdusalam, 2020). Social capital and unofficial networks are crucial for mitigating the impact of inflation in nations with inadequate governmental safety nets (Ajao & Igbokwe, 2021). In times of financial hardship, households rely on community associations, religious organisations, or extended family for support (Ogunleye & Ayoola, 2021; Abdullahi, et al, 2021).

Furthermore, the widespread economic crises also put pressure on households. In reaction to inflation, Nigerian households have created a variety of coping mechanisms, although many of these are reactive and frequently weaken long-term resilience. The persistent use of unhealthy coping strategies, such cutting back on expenditure on health and education or selling off productive assets, emphasises how urgently better public support networks and inflation-targeting legislation are needed (Bashir, 2022).

2.2 Rising Prices

A recurring problem in the economy, inflation affects everything from everyday financial decisions to an individual's long-term investments to the price of groceries. People's purchasing power declines when prices rise, forcing them to re-evaluate their investment, savings, and spending patterns. The overall impact of rising prices has been extensively studied, but little is known about how different income levels adjust to the increases and how their financial activity changes in response (Akanbi & Oladipo, 2019). Most people consider managing money during inflation to be a tightrope act. Households with lower incomes are typically the most affected, cutting back on non-essential spending or using savings to cover rising costs (Akinrinola & Olowofeso, 2020).

Conversely, those with higher incomes may respond by altering their investing strategies or looking for other sources of income. A steady increase in the average price of goods and services over time that lowers money's purchasing power is referred to as inflation (Musarat,

Alaloul & Liew, 2020). Particularly for low-income workers, inflation has a more severe effect on household welfare and is typically more variable in developing economies like Nigeria. Rapid price increases frequently make it difficult for families to maintain their level of living, which results in decreased savings, decreased consumption, and altered spending patterns (Ogunyemi & Babalola, 2018).

According to Oladejo, et al (2025), rising prices influences both the amount and the kind of household spending. Families are compelled to reallocate their meagre income towards necessities when food and other necessities rise in price, which reduces their ability to spend on discretionary expenses like savings, clothing, or education. A common standard for calculating inflation is the Consumer Price Index (CPI). Nevertheless, empirical research has shown that CPI averages frequently conceal differences in how inflation affects various socioeconomic groups (Olayemi, 2020). For example, lower-income households are more susceptible to price shocks in these areas since they often spend a larger percentage of their income on necessities like food and utilities (Onwubuariri, Oladeji & Bank-ola, 2021).

Changes in household preferences, prices, and income generally have an impact on household consumption behaviour. According to Engel's Law, the percentage of income spent on food falls as income rises and vice versa (Sadiq, Singh & Ahmad, 2024); this suggests that households, particularly those with lower incomes, spend a greater portion of their budget on food when inflation occurs and real income declines. In reaction to shocks, households attempt to smooth consumption, according to Saungweme and Odhiambo (2021). However, many households in underdeveloped nations are unable to react to inflation without drastically altering their consumption baskets due to a lack of credit and social safety nets. Reductions in health, education, and leisure are frequently part of these changes (Sudjono, 2024)

Over the past few decades, Nigeria has been subject to ongoing inflationary pressures, with food inflation frequently surpassing headline inflation rates. Numerous studies demonstrate how inflation negatively impacts household welfare. According to Ogunleye and Ayoola's (2021) analysis of household vulnerability to inflation, most Nigerian households suffer welfare losses, especially in metropolitan regions where cost-of-living rises are more noticeable. Similarly, Olayemi (2020) noted that low- and middle-income households are impacted by inflation's erosion of salaries' real purchasing power. According to Ubah (2019), the poorest quintile's household budget is more than 60% devoted to food expenses. These households have even less money to spend on other necessities as inflation increases, which can have long-term detrimental effects including low health and educational achievement.

Food, transportation, and housing are three significant areas of household budgets where the National Bureau of Statistics (NBS) often reports high inflation (NBS, 2024). Many households have been compelled to reallocate funds from healthcare, education, and social expenses to basic subsistence needs as a result of these inflation increases, particularly during times of exchange rate adjustments and the elimination of subsidies. According to Akanbi and Oladipo (2019), households tend to reduce or eliminate discretionary expenditures like entertainment, clothes, and eating out when inflation is high. The relationship between inflation and household spending in developing nations has been the subject of numerous empirical investigations.

Olayemi (2020) shown that inflation causes a significant rise in the proportion of household budgets allocated to food, hence perpetuating poverty and inequality. Furthermore, because

of their heavy reliance on food and lack of coping strategies, the poorest households are disproportionately affected, according to a World Bank research on Nigeria's inflation and cost-of-living crises from 2022. Regional disparities have also been noted; rural households are typically more vulnerable since they earn less money and have less access to government assistance and credit. The majority of Nigerians, particularly wage earners and retirees with fixed incomes, now have much less purchasing power due to the rising costs of necessities including rice, garri, cooking oil, and fuel (NBS, 2024). Inflation has a significant impact on households, reducing real income and changing patterns of consumption. Households are forced to re-evaluate their financial priorities as prices rise, frequently reducing discretionary spending to cover growing expenses in necessities like housing, food, and energy (Köse & Ünal, 2022)

As households discover that their income can no longer purchase the same number and quality of goods and services, the most immediate result is the erosion of purchasing power (Ali & Asfaw, 2023). A decrease in real income compels households to modify their consumption habits, frequently giving priority to necessities like food and housing while cutting back on spending on long-term, non-essential necessities like healthcare, education, and leisure (Doan Van, 2020). The situation is especially bad in Nigeria. Due to their heavy reliance on food consumption, impoverished and rural households have been particularly affected by food inflation, which has continuously exceeded general inflation (World Bank, 2022).

The National Bureau of Statistics (2023) reports that, on average, food expenses make up more than 55% of all household expenses. Households reduce quantity, move to lower-quality alternatives, or stop spending entirely as costs rise, particularly in the health and education sectors. Numerous studies support these trends. According to Ubah (2019), Nigerian inflation causes households to reallocate their expenditure from investing in human capital to meeting their urgent survival needs. Since underfunding of health and education can result in intergenerational poverty, this raises long-term welfare issues.

In a similar vein, Olayemi (2020) noted that during inflationary times, Nigerian households decrease their savings and asset accumulation, which hinders their capacity to withstand future economic shocks. Additionally, because lower-income households are less able to adjust financially, inflation exacerbates inequality. Idris and Suleiman (2019) claimed that because the poor spend a larger percentage of their income on needs, inflation tends to be regressive, harming them more than the rich. Wage growth frequently falls short of inflation, particularly in the informal sector, which employs the vast majority of Nigerian workers. This makes household budgets even more tight and makes people more vulnerable.

Additionally, loan availability and saving habits are impacted by inflation. High inflation reduces households' capacity to invest in productive assets or gradually stabilise consumption by discouraging long-term savings and raising borrowing costs (Anidiobu, Okolie & Oleka, 2018). Ineffective coping mechanisms might also cause families to utilise unhealthy survival techniques, such removing kids from school, cutting back on mealtimes/postponing medical procedures, which can worsen human development metrics (The Central Bank of Nigeria, 2024). Since personal loans are nearly equal to industrial borrowing, households are the primary source of domestic savings and play a critical role in the distribution of bank credit (Udochukwu, et al, 2024).

2.3 Theoretical Framework

Utility maximisation and consumer theory served as the foundation for this investigation. First, one of the essential pillars of microeconomics is consumer theory. Given their restricted income and the costs of products and services, it explains how people or households decide what to consume. The fundamental tenet of this theory is that consumers seek to maximise their level of happiness (or utility) from their purchases while adhering to their spending limits (Akca, 2025).

Second, the Utility Maximisation under Constraints theory maintains that every household has a budgetary restriction that sets a limit on their overall spending power based on their income and product pricing. The purchasing power of that income declines as prices rise. In order to get the most out of their limited resources, households are thus compelled to reconsider how they spend their income (Inim, Samuel & Prince, 2020).

Prices rise with inflation. Households will be able to purchase fewer items if income stays the same or doesn't rise quickly enough. They must therefore reallocate their expenditure, frequently cutting back on non-essential items and increasing their attention to needs. Many households in Nigeria live below the poverty line and spend a large percentage of their income on necessities, particularly food. Households see a dramatic decline in real income when inflation, especially food price inflation, takes place. As a result, people might: Purchase less expensive alternatives (such as switching from rice to cassava).

2.4 Empirical Studies

Akinbobola (2012) examined inflation and its impact on household consumption in Nigeria using the Error Correction Model. According to the report, households are forced to curtail their non-essential consumption as a result of inflation, which drastically lowers real income. The results showed a strong inverse relationship over the long term between household consumption spending and inflation. In particular, households' real purchasing power declines with rising inflation, forcing them to modify their spending habits. The short-term dynamics showed that when households try to save their budgets for basic needs like food, housing, and medical care, inflationary shocks cause them to immediately cut back on consumption, especially of luxury and non-essential goods. According to the study's findings, inflation lowers consumer confidence and places a regressive burden on households, particularly those with lower incomes, which eventually affects their standard of living and welfare.

In a World Bank working paper, Cancho and Elwan (2015) used specific data from Nigeria to examine how food price inflation affects household welfare in Sub-Saharan Africa. The researchers discovered that the poorest households, who spend a major amount of their income on food, were significantly impacted negatively by rising food costs using micro-simulation models based on household consumption data. According to the findings, consumption smoothing behaviors—like cutting back on non-food expenses, moving to less expensive food options, and depending more on informal borrowing—are brought on by inflation. The study also discovered that a steep drop in living standards was more likely to occur in households without access to social safety nets or remittances.

Ubah (2019) Regression analysis and primary data revealed that Nigerian households use coping mechanisms include delaying medical care, cutting back on school spending, and switching to lower-quality food. It was discovered that these actions have long-term welfare costs. Using Ordinary Least Squares regression and micro-level survey data, the study

discovered that among the lowest income quintiles, food expenses accounted for more than 60% of total household income. Households reduced the amount and quality of their meals in response to rising inflation, particularly in the price of food. In order to deal with rising costs, many households switched from diets high in protein to ones focused on carbohydrates. The number of households skipping meals or reducing meal frequency has increased, according to the survey.

To evaluate the effect of food inflation on household wellbeing in Nigeria, Olayemi (2020) carried out a comprehensive empirical investigation. The study used Tobit regression model and data from Nigerian Living Standards Measurement Study to investigate how food price volatility impacts households' capacity to sustain basic living standards, especially those in lower income categories. It found that total welfare of household is impacted negatively by rising food prices in statistically meaningful way. Low-income households were particularly impacted since they spend a disproportionately large portion of income on food.

The impact of household spending on the overall level of prices is the main topic of Akca (2025). The GDP rate of household consumption expenditures and the personal loans (credit cards, homes, cars, etc.) offered by Turkish public and private banks are used for this. The symmetric test by Hacker and Hatemi-J (2006) and the asymmetric test by Hatemi-J (2012) were used to analyse the impact of price increases on household spending. The results show that neither personal loans nor household consumption expenditures have a symmetric causal connection with inflation rates. The study also found that while positive shocks to household consumption expenditures are effective in both positive and negative shocks to inflation, positive shocks to personal loans are effective in negative shocks to inflation.

3. METHODOLOGY

The researcher employed ex-post facto research design by using quantitative data. Secondary data was obtained on rising prices (Consumer Price Index - CPI), household budgets (Total Household Income, and Household Final Consumption) from the Central Bank of Nigeria (CBN and the National Bureau of Statistics (NBS) publications. The study used frameworks of Vector Auto-Regression (VAR), Unit-Root (Augmented Dickey Fuller and Philip-Perron) and Autoregressive Distributed Lag (ARDL) estimation techniques. The study period was from 1991-2024

Vector Auto-Regression (VAR) model was used and restricted to incorporate the effect of rising prices (dependent variable) on household budget adjustments (independent variables); to test the causal relationship between rising prices and household budget adjustments, the following models were estimated:

$$\text{Rips} = f(\text{Thi}, \text{Hfc}) \quad \text{eq. (1)}$$

Equation 2 captures the causality link between rising prices and household budget adjustment as follows:

$$\text{Rips}_t = \alpha_{10} + \sum_{j=1}^k \alpha_{ij} \text{Rips}_{t-j} + \sum_{j=1}^k \beta_{ij} \text{Thi}_{t-j} + \sum_{j=1}^k \gamma_{ij} \text{Hfc}_{t-j} + \mu_t \quad \text{eq. (2)}$$

Furthermore, taking the natural logarithm form of equation 2 with respect to total household incomes (Thi) and household final consumption (Hfc), equation 3 was re-estimated with “*ln*” standing for natural logarithm; this was to avoid scaling problem since rising prices (Rips) is expressed as a percentage while Thi and Hfc were expressed in billion of Naira.

$$\text{Rips}_t = \alpha_{10} + \sum_{j=1}^k \alpha_{ij} \text{Rips}_{t-j} + \sum_{j=1}^k \beta_{ij} \ln \text{Thi}_{t-j} + \sum_{j=1}^k \gamma_{ij} \ln \text{Hfc}_{t-j} + \mu_t \quad \text{eq. (3)}$$

The results are directed towards ascertaining the existence of Granger causal link between rising prices and household budget adjustments. The statistical analysis was carried out using STATA 13.0 version.

4. RESULTS

Table 1: Summary of Descriptive Statistics

Statistics	Rips	Thi	Hfc
Mean	13.53	3.355	7.048
Standard Deviation	3.185	0.643	0.225
Kurtosis	1.531	2.011	3.031
Skewness	-0.378	-0.631	0.551
Observation	34	34	34

Source: Computed via STATA 13.0

Presented in Table 1 is the summary of descriptive statistics for the household budget adjustments variables (Thi and Hfc) and rising prices (Rips) during the period 1991-2024; the result revealed that Rips, Thi and Hfc recorded mean values of 13.53, 3.355, and 7.048 respectively. The standard deviation for Rips is 3.185; this is expected since rising inflation is expressed as a percentage change in actual purchasing power and evidence of spike in real inflation rate. The mean and low standard deviation values for Thi and Hfc were indication of excessive adjustments in household budgets orchestrated by rising inflation. The skewness and kurtosis results revealed that all the variables were normally distributed at 5% level.

Table 2: Pearson Correlation

Statistics	Rips	Thi	Hfc
Rips	-1.0000		
Thi	0.0363	1.0000	
Hfc	-0.0485	-0.3484	1.0000
Observation	34	34	34

Source: Computed via STATA 13.0

The Pearson correlation results revealed that Thi and Hfc were negatively correlated with Rips because the Pearson coefficient is carrying a negative sign. This suggests that there is negative relationship between rising prices and household budget adjustments in Nigeria. To ascertain stationarity of variables, ADF and (P-P) tests were carried out on the variables.

Table 3: Unit Root Test

Variable	Level	ADF Test 1 st Diff.	Integration Order	No. of Lags	Intercept
Rips	-2.755*	-3.564**	I(1)	1	Intercept
Thi	-1.407*	-3.508**	I(1)	1	Intercept
Hfc	-0.256*	-2.506**	I(1)	1	Intercept
Variable	Level	P-P Test 1 st Diff.	Integration Order	No. of Lags	Intercept

Rips	-4.736	-3.310	I(1)	1	Intercept
Thi	-1.555	-3.671	I(1)	1	Intercept
Hfc	-0.344	-2557	I(1)	1	Intercept

Source: Computed via STATA 13.0; *insignificant @5% **significant @5%

The unit root result (Table 3) showed that all the variables were stationary with intercept in both ADF and P-P. This suggests that all the variables were of higher order (I(1)), hence we carried out an unrestricted VAR equation with two (2) lag lengths

Table 4: Lag Length Selection Criteria

Lag	LL	LR	Df	P	FPE	AIC	HQIC	SBIC
0	-266.3				13683.5	14.0208	141128	142846
1	-24.63	31.151*	2	0.000	5613.13*	13.3745*	13.5280*	13.8144*
2	-248.03	4.3818	2	0.131	6148.55	13.4447	13.6606	14.0606

Source: Computed via STATA 13.0

Table 5: Langrange-Multiplier Result

Lag	Chi2	Df	Prob. > Chi2
1	5.4739	2	0.53440

Source: Computed via STATA 13.0

The test for optimal lag length showed that test criteria (SIC, LR, HQ, AIC & FPE) selected one-lag length; thus, using higher lag may not yield any divergent result. Using lag lengths lower than 5 resulted in test criteria selecting lag 1 as optimal lag length. Using lag length of $k = 1$, we -estimated VAR model and test for stability of model. To further probe the model, we used autocorrelation Langragrian Multiplier (LM) test of residual, which showed that there is no serial autocorrelation in the empirical model of the study.

Table 6: VAR Granger Wald Test

Equation	Excluded	Chi2	Df	Prob > Chi2
Rips	Rips	0.1656	1	0.3410
Thi	ALL	0.1677	1	0.4334
Hfc	Thi	0.2112	1	0.4712
Rips	ALL	0.2112	1	0.4720

Source: Computed via STATA 13.0

Table 6 revealed that Hfc and Thi do not Granger caused by past values of Rips. The result of Wald test implies that an increase in household budget adjustments would not impact on rising price in Nigeria

Table 7: VAR Results

Sample: 1991 – 2024

Equation Parms	RMSE	R-sq	chi2 P>chi2
	.0087111	0.823	13044.22
Coef.	Std. Err.	z	
Thi (-0.3484)	-.0150562	-5.74	0.000
Hfc (-0.47494)	-.0003639	-6.88	0.000
cons .3605289	.1493208	7.41	0.000

Source: Computed via STATA 13.0

Table 6 revealed that R^2 of 0.823, suggesting that rising prices explained about 82.3% of the systematic variation in household budget adjustments. Furthermore, the Wald Chi2 indicates that rising prices significantly explained the short-run variations; the correction coefficients were statistically significant; this implies that during the periods under investigation, household budget adjusts significantly due to exogenous variation in rising prices of past values. Our findings agree with the results of Cancho and Elwan (2015) and Akca (2025) who found significant and negative influence of rising prices (inflation) on household budget adjustments.

5. CONCLUSION AND RECOMMENDATIONS

In this study, we analyzed whether household budget adjusts in response to rising prices in Nigeria. Ex-post facto research design was employed and secondary data on household budget adjustments (total household income, and household final consumption), and rising prices (consumer price index) were obtained from the Central Bank of Nigeria and National Bureau of Statistics bulletins from 1991-2024. Using an unrestricted vector auto-regression (VAR) model, the study found that household budgets adjusted in response to rising prices significantly; this finding is partly buttressed by the fact that when there is spike in prices, it would make household to adjust or re-adjust their budgets in line with the current rates of inflation.

Consequently, the study concludes that household budget adjusts significantly and negatively due to exogenous variation in rising prices of past values. On the basis of the findings, the study recommends that the government should put effective and efficient control measures in place that can help control and stabilize inflation. The study contributes to knowledge by establishing that household budget adjustments significantly and negatively respond to rising prices. Also, the study fills the gap in economics/finance literature on the linkage between household budget adjustments and rising prices in Nigeria by extending data till 2024.

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