

# A study on the causes and countermeasures of rising Prices in the United States -- Taking food and petroleum as examples

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**Abstract.** This paper focuses on the current news in the United States of America about the growing prices. Since 2021, the prices in the United States have grown crazy, and after the war in Ukraine broke out, they increased even faster than before. Now the government of the United States has already taken some measures to solve the problem, but the measures are not useful because the prices are still growing. The paper will analyze the reasons and measures for the growing prices, then provide optimization plans based on existing policies. Considering the ability of the group members, the paper will focus on gasoline and food, which matter in the daily lives of American people and industries and stand out among all the increasing prices in the United States. Overall, the paper's goal is to find some ideas to solve the price problems effectively and give optimization suggestions to the government of the United States.

**Keywords:** United States, Causes, Countermeasure, Rising Prices.

## 1. Introduction

### 1.1 Research background

Recently, the world has changed a lot. COVID-19 is still impacting the whole world, the war between Russia and Ukraine is going on, and the economy in the United States is not stable. Based on the United States Department of Labor data on March 10, 2022, the Consumer Price Index for All Urban Consumers increased 0.8 percent in February. The gasoline index rose 6.6% in February and accounted for almost a third of all items monthly increase, the food index rose 1.0%, and the food at home index rose 1.4%. The all-items index rose 7.9% for the 12 months ending February. The 12-month increase has been steadily rising and is now the largest since the period ending January 1982. The energy index rose 25.6% over the last year, and the food index increased 7.9%, the largest 12-month increase since July 1981 [1]. It's a big problem for the government in the United States. What happened to the prices in the United States? Why is inflation really serious?

This paper will analyze the reasons for serious inflation in the United States since 2021 and use the inflation in gasoline and food as examples, then try to give some practical solutions to this problem because the government of the United States needs to solve the inflation problem. Whether the COVID-19 and the war in Ukraine affect CPI in the United States or not? Or that's due to the inherent laws of macroeconomics? These are all questions that are worth discussing in this paper.

### 1.2 Literature review

Messler proposed that demand for oil recovers after a vaccine against the novel coronavirus is developed at the end of 2021, leading to lower inventories and higher prices. He thinks they will see an enhanced and stricter regulatory environment in the coming years. The U.S. will be put firmly on a path where renewable fuels are increased at the expense of petroleum-based fuels [2]. Isidore believes that oil prices are soaring to seven-year highs but doesn't expect U.S. oil producers to increase supply. That's because some problems prevent producers from expanding their survival to

make a profit. Such as they don't have enough equipment, and some investors are reluctant to invest in fossil fuel stocks because U.S. oil stocks have lagged the broader market for most of the past two years [3]. The CNBC report pointed out that the United States is preparing to release 1 million barrels of oil per day from strategic reserves to help reduce natural gas prices and fight inflation [4]. Amadeo suggests five factors that affect food prices in the short term and long term. The most important effect in the short term is external environmental factors such as disease, war, and natural disasters. And the factors affecting the long-term focus are the level of oil prices because this determines the cost of transportation and the government subsidies.

Furthermore, she pointed out that in 2020 the average price of food has risen by 3 percent, with the price of meat products rising by 4.4 percent and the price of dairy products by 3.8 percent [5]. Garber founds 8 effective methods to solve the rising food prices in his article published in 2008. Such as taking a pause on biofuels, improving food aid, producing higher yields, growing better crops, curbing the speculators, breaking down trade barriers, eating less meat, and sharing the crowded plant, most of them helpful at those points [6].

### 1.3 Research gap

On the cause of rising prices in the United States, most scholars have mainly focused on the impacts of the pandemic (Covid-19). There is no doubt that the pandemic leads to layoffs and even shutdowns in many industries, which restricts international trade and the supply chain. Furthermore, as the world gets rid of the pandemic, people's demands are still growing faster than supply recovery. It also aggravated the issue of rising prices caused by the shortage. In contrast, few researchers have concentrated on international and national conditions changes because of time limitations. Specifically, the recent conflict between Russia and Ukraine and some new policies proposed by Joe Biden have affected prices in the United States.

### 1.4 Research framework

Therefore, considering the gap in such a topic among other researchers, the framework of this paper is as follows. The first part is an analysis of the economic situation that America is facing. For example, start with the overall price level in the United States and then focus on the price of oil and food. The second part analyses the reasons for such a condition related to the information about the conflict between Russia and Ukraine. Such as the impact of the war on both countries' exports and, some sanctions imposed on Russia by other countries, Biden's Policies that specifically affect the price of oil and food. Simultaneously, we will also introduce the reason for the pandemic in brief. The third part demonstrates how these factors can result in rising prices in America by utilizing principles of economics. Finally, we will evaluate these processes and propose some solutions to relieve the rising price of food and oil.

## 2. Method

### 2.1 Case study

A case study is an in-depth, detailed examination of a particular case (or cases) within a real-world context. Generally, a case study can highlight nearly any individual, group, organization, event, belief system, or action. A case study does not necessarily have to be one observation but may include many observations [7]. This paper focuses on the inflation in gasoline and food in the United States through these two representative cases to analyze the reasons and practical solutions to the serious inflation. Because this paper is made in China, the main way for the paper to collect relevant information is through government documents and news reports in the United States, especially the data counted by the authority. The goal of this case study the paper is to find useful key information on inflation in gasoline and food in the United States from authoritative information and analyze possible reasons for the whole serious inflation problem. Then based on the existing solutions made by the government of the United States, the paper also evaluates and analyzes the pros and cons of these solutions, then

gives some improvements and additions to the way to solve the price problem. The paper will only consider the economic problem but not political things.

## 2.2 Empirical analysis

The empirical analysis is a type of research dedicated to discovering concrete, verifiable evidence. Guided by the scientific method, empirical analysis allows researchers to remove personal bias and instead use concrete, accurate and repeatable real-world evidence to conclude. This article will prove that oil and food prices are in a rising stage in the United States based on the data analyzed by scholars and find the reasons for this problem. In addition, we will also look for past literature to find solutions to solve the problem of rising prices in the United States.

## 3. Result

### 3.1 Situation analysis

#### 3.1.1 the United States Inflation Rate

Current America is facing a serious issue of inflation. As exhibited in Figure1, the inflation rate in March of 2022 reached 8.5%, exceeding the market forecasts of 8.4%. It is the highest since December of 1981 from 7.9% in February.

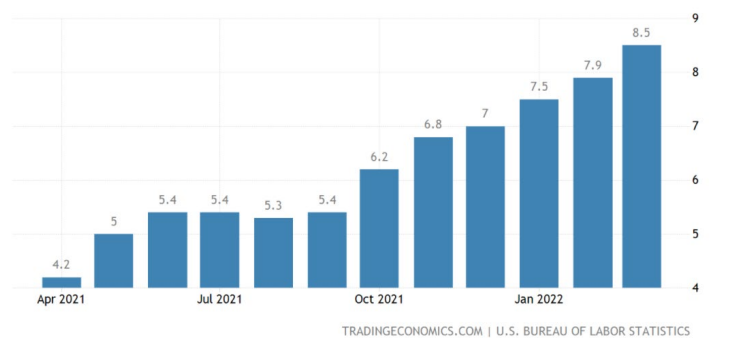


Figure 1 United States Inflation Rate

#### 3.1.2 the United States Consumer Price Index (CPI)

Such a high inflation rate resulted in the rising prices of many commodities, leading households, on average, to an extra cost of \$5,200 this year, or an additional cost of \$433 each month [8]. As depicted in Figure 2, compared with the numeral value in February of 2022, the United States consumer price Index in March of 2022 rose by 1.2%, the biggest increase since September of 2005, with the main contributions coming from the shelter, gasoline, and food.

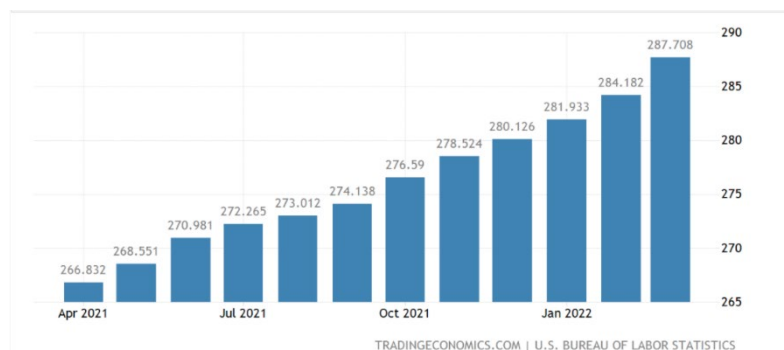


Figure 2 United States Consumer Price Index

Take gasoline and food as examples. From U.S Bureau of Labor statistics, energy prices increased 32.05%, namely gasoline (48%) and fuel oil (70.1%), and food prices jumped to 8.80%. To be more

specific, residents need to pay 4\$ for one-gallon gasoline. According to the statistic of the USDA, the price of beef and veal increased by 16.2%, pork increased by 14%, poultry increased by 12.5%, eggs increased by 11.4%, and fats and oils increased by 11.7%, and fresh fruits increased by 10.6%.

### 3.2 Causes analysis

#### 3.2.1 The conflict between Russia and Ukraine

Figures 3 and 4 show that Russia and Ukraine play a significant role in the global foods market. In 2019 around one-quarter of global wheat exports came from Ukraine and Russia. One-fifth of global maize and barley too. The most remarkable thing is the two countries' sunflower oil. Both Russia and Ukraine's sunflower oil exports and production are more than 55 percent of the global exports.

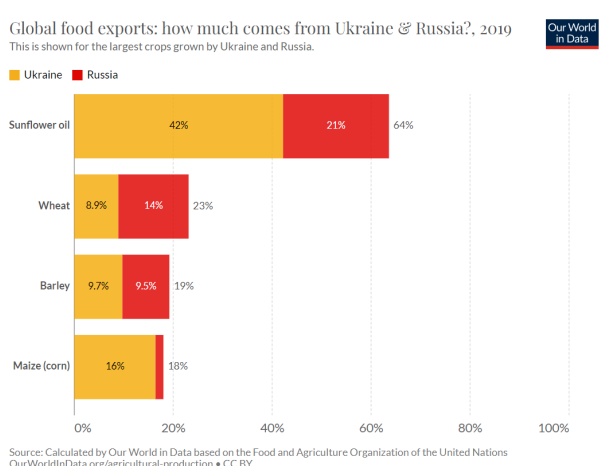


Figure 3 Food exports from Russia and Ukraine

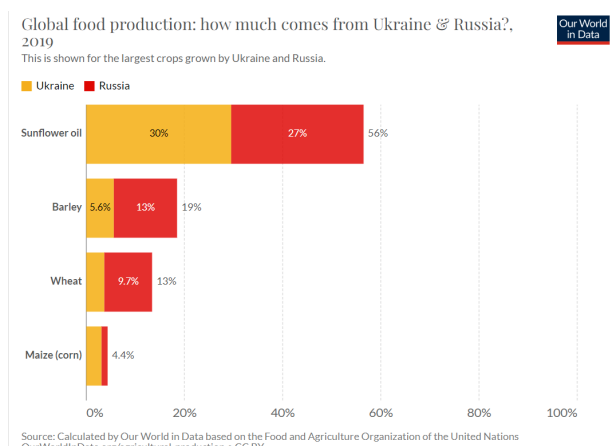


Figure 4 Food production in Russia and Ukraine

However, the conflict between Russia and Ukraine has led other countries to impose sanctions on Russian exports. For example, Russian ships were banned from British and Canadian ports on March 1. U.S., E.U. said they were considering banning Russian ships from their ports on March 2. New Zealand banded Russian ships from its ports on March 7. Global imports of these four crops thus will fluctuate wildly, especially for sunflower oil.

In addition to the sanctions on Russian shipping, the war itself also damage the two countries' production of crops. Take sunflower oil as an example. George Duke and Robert Beaman found that Russia's invasion seriously disrupts the Ukrainian sunflower oil industry and supply chain. Russian troops moved into the main sunflower seed-producing regions, threatening the railway and road systems used in Ukraine to transport seeds from production areas to crushing facilities or export

terminals, destroying producing facilities [9]. Therefore, the conflict between Russia and Ukraine itself negatively influences Ukraine's crop production and exportation. The sanctions caused by this conflict reduced Russia's crop exports dramatically. Thus, the global supply of such goods decreases, leading to a higher price.

The changing price of oil is a similar way. As shown in Figure 5, Russia is the world's second-largest oil exporter. Moreover, because oil is one of the most important resources in war, the conflict between Russia and Ukraine leads Russia to consume more oil. Simultaneously, U.S. and U.K. imposed sanctions on Russia on March 8 that banded Russian oil and other energy imports decreasing the global total oil supply indirectly, which led to a rising oil price in the world, especially for America.

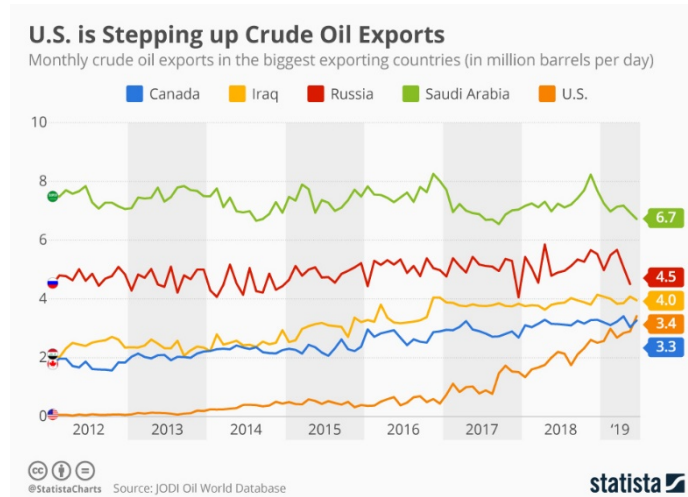


Figure 5 World's top export oil

### 3.2.2 Biden's policies

On January 27, Biden announced several new oil and gas policies to address the climate crisis at home and abroad. The Biden administration halted new oil and gas leases on federal land and offshore waters. There is no doubt that America has been facing an energy crisis since January 2021, so American oil prices increased 48% in March 2022. However, Biden's new policies toward oil and gas didn't play any role in lowering oil prices by expanding oil exploration and production to increase the total amount of oil in the world. Instead, it aggravated the issue of rising oil prices.

Furthermore, Biden declared on March 8 that America has to reduce its dependence on oil and achieve energy independence to protect the domestic economy in the long term [10]. Thus, the government continues to pursue policies that discourage future oil, coal, and gas exploration, production, distribution, and investment. As a result, the price of oil goes up and up.

Besides, it is known that the labor shortage caused by the pandemic made a huge impact on the American food market last year. Take the meat industry as an example. Many meat companies were about to bankrupt. In order to cope with this issue, Biden decided to stimulate and subsidize these companies to maintain domestic employment and the price of meat. Consequently, several companies survived, but they also became monopolists in the meat industry. When the epidemic starts to recede, and the economy begins to recover, the companies raise the price of meat to maximize their profits, as Trevor Hunnicutt quote Bharat Ramamurti, deputy director of the White House's National Economic Council, said in an interview. "We've helped sustain this market, and it's frustrating to see these companies turn around and raise prices. We see here smacks of pandemic profiteering are the behavior the administration finds concerning [11]."

### 3.2.3 Covid-19

Stephanie Ferguson found that the extra few hundred dollars a week from unemployment benefits and stimulate checks during the pandemic resulted in 68% of claimants earning more on

unemployment than they did while working. Meanwhile, the danger of the pandemic has also encouraged many people to take an early retirement [12].

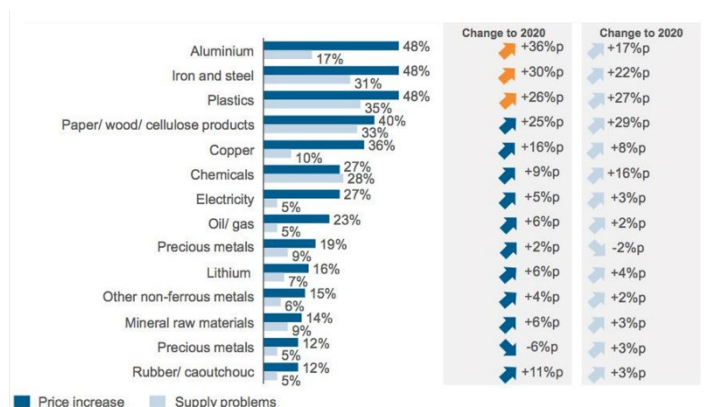


Figure 6 The prices of materials

In this day and age, the production of globalization strengthened international cooperation and division. For example, a product that brand belongs to a country might be produced by several countries collectively. This pattern plays each country's comparative advantages, expanding the production scale. However, such global integration also adds to more uncertainties and risks. During the pandemic, the production of many raw materials or parts and trade between countries has been suppressed. Labor and transportation costs have increased. All these factors contribute to supply chain a shortage. As illustrated in Figure 6, the price of several raw materials rose. In addition to the rising oil price, the increasing price of aluminum, plastic, and paper increases packaging prices, such as food packaging. So, the food price will rise.

### 3.3 Problem Analysis

#### 3.3.1 Conflict between Russia and Ukraine

Unlike European countries, the United States has no over-dependence on Russian gas. But sanctions against Russia and Russian countermeasures still raise energy prices in the United States. It is like the trade war against China during Trump's presidency, but the "battlefield" changed to the energy industry, and gasoline prices are especially affected. Considering the war in Ukraine has also caused a giant price change in the United States and worldwide.

For the United States, because both Russia and Ukraine provided a lot of food and gasoline before the break out of the war, the economic losses and price changes due to the war in Ukraine cannot be changed by the government of the United States. However, sanctions against Russia also hurt the United States itself. Based on a report of Roll Call on March 8, President Joe Biden admitted that there would be a cost as well in the United States because the sanctions may lead to higher gasoline prices domestically [13]. The sanctions now are just like "political correctness" from an economic perspective because the sanctions affect the prices in the United States and have already caused problems in the American food and gasoline market.

#### 3.3.2 Biden's policies

As the paper mentioned before, the government of the United States also took some steps to solve the price problem before.

In the gasoline industry, based on the news from China News, President Joe Biden announced on March 31 that a million barrels a day would be released from the strategic petroleum reserve in response to the surge in energy prices [14]. That meant that more gasoline would be released to the American gasoline market. In a short time, this step can bring down the price of gasoline because there is much supply but seldom change in demand. It's easy to know how it will happen based on principle microeconomic knowledge. But it's not a good idea for a long time because the common

supply has not changed. The additional gasoline may reduce the production of the gasoline industry, finally declining the supply in the future.

Additionally, the government of the United States made some plans to develop other sources of energy, like nuclear energy and flammable ice. These plans can solve energy problems in a sustainable economy and environmental protection. But to solve the gasoline problem at the moment, the plans aren't efficient because the new energy cannot take the place of gasoline in a really short time.

In the food industry, the government of the United States also took some measures. Knowing the importance of food for common people, the United States has reduced the huge monopolies in the food industry and supported small food companies to grow and enter the market. From an economic perspective, fair competition is a good way to reduce monopoly-induced price inflation, and it's also consistent with the Keynesian view of intervention in the economy. But it's not easy to carry out the plan, and until now, the prices of food in the United States have few changes.

## **4. Discussion**

### **4.1 optimizing existing strategies**

#### **4.1.1 Conflict between Russia and Ukraine**

Because there is no reason to intervene in other countries politics, the rising food and oil prices caused by the war itself are inevitable. However, American sanctions against Russia still have room to adjust. Compared with the sanctions imposed by the U.K., American sanctions towards Russia are quite absolute and rapid. Take oil as an example. The U.K. declares that they will phase out imports of Russian oil and petroleum products by 2022. Such a strategy provides the U.K. with sufficient time to adapt to the energy shortage and the pandemic. However, America indicated that they would ban the imports of Russian oil and other energy immediately. If sanctions are necessary, the United States can choose a relatively moderate approach and try to be less reliable on Russian oil. In this way, gas prices in the United States would not be as high as they currently face.

#### **4.1.2 Biden's policies**

There is no denying that Biden imposed a complete sanction on Russian oil and other energy exportation. However, halting domestic oil production to find alternative energy in response to rising oil prices has had a negative impact in the short term. Furthermore, as mentioned above, Biden's release of oil reserves won't add to the total amount of oil. Under such circumstances, the U.S. government should give up searching for alternative energy temporarily. Instead, release oil reserves while reopening and supporting domestic oil production to cope with short-term oil price increases. After oil prices become stable or lower, try to find alternative energy sources to achieve energy independence.

It is reasonable that Biden gave meat companies incentives and support during the height of the pandemic. However, it ignored that these companies could monopolize the meat industry and raise prices perniciously in the coming recovery period. Therefore, the U.S. government should crackdown on those monopoly companies while subsidizing small and medium-sized meat companies to create a more competitive market.

### **4.2 Other strategies**

In the short term, the government can choose to reduce the income tax and consumption tax or give subsidies to companies and households. The reduction of income tax can directly lead to increased personal disposable income. At the same time, if the commodity tax is reduced, the price of goods will decrease. The consumers' willingness to buy will increase, especially in buying foods, because coronavirus leads to the price of food increasing higher than ever. If the price becomes low, people will likely pay more money for food. Besides, decreasing taxes is also good for companies. If the commodity tax price is reduced, companies can spend less money to buy input and the demand

for their commodities increases. They will be willing to produce more goods, so the productivity in the short term will not decline. Also, the government can give some subsidies to companies, such as companies that do not lay off employees. The government can give them higher loan amounts or help promote companies that promise not to increase the price of goods that all have profit to the company and not increase too much government spending.

In addition, as prices rise and consumers begin cutting non-essential items from their budgets, brands must effectively communicate their value proposition and benefit to customers. Brands can turn their most loyal customers into brand advocates [15]. Taking food companies as an example, their first countermeasure should be bundling and selling more products at seemingly low prices. For example, they can sell butter and bread together, and mutton and onions can also be sold together, increasing the one-time consumption of consumers and increasing the sales of products. Some restaurants need to show the novelty and deliciousness of their dishes to attract more customers, such as healthier or ingenious dishes.

## **5. Conclusion**

### **5.1 Summary findings**

This paper focuses on the current news in the United States of America, which is about the growing prices. Since 2021, the prices in the United States have grown crazy, and after the war in Ukraine broke out, they increased even faster than before. Now the government of the United States has already taken some measures to solve the problem, but the measures are not useful because the prices are still growing.

The paper analyzes the reasons and measures for the growing prices, then provide optimization plans based on existing policies. Considering the ability of the group members, the paper will focus on gasoline and food, which matter in the daily lives of American people and industries and stand out among all the increasing prices in the United States. Overall, the paper's goal is to find some ideas to solve the price problems effectively and give optimization suggestions to the government of the United States. According to the content of the above article, because the war in Ukraine and the terrible epidemic are continuing, the growth of the prices will continue at the same time. Existing policies made by the government of the United States have both advantages and disadvantages in solving this problem. To solve the problem, the government of the United States should ease the sanctions against Russia because that hurts the gasoline market in the United States as well. Because searching for new energy cannot solve the problem in time, releasing gasoline reserves is the best way to develop the supply and lower the price of gasoline at this moment. However, it may cause problems in the future. In the food industry, implementing the policies about combating monopoly and promoting healthy competition can ease the increasing prices. In addition, the government of the United States can also take some measures in monetary policies to lower the prices.

### **5.2 Research significance**

The importance of our essay is that we point out the reasons behind the rising prices of products such as oil and food in the United States. Many consumers have reduced their willingness to spend due to rising prices, and many companies have no idea how to solve the problems. This paper tries to suggest and summarize the solution for companies and governments and can help readers have a clearer understanding of the impact of inflation in the United States.

### **5.3 Limitations and future study**

Because this paper is related to rising prices in the United States, the war between Russia and Ukraine, and Biden's policies on food and energy, these factors are ongoing, only a few papers and reports are related to our content in the academic field. This is one of the limitations of this paper. Instead, we used a lot of American official statistics, factual news and statements, and analysis of

economists, both of which are second-hand data. Thus, the second limitation of this paper is lacking first-hand data.

When the rising prices in America, the war between Russia and Ukraine, Biden's policies, all these facts are determined, there will be more comprehensive and adequate information for our paper in the future. Besides, we will also manage to collect first-hand data to improve this paper by utilizing interviews or surveys.

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