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DOMINO EFFECT: WHAT IS IT? HOW IT CONNECTS TO ECONOMIC ACTIVITIES

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The domino effect is the phenomenon whereby one incident starts a series of connected events. The term "domino effect" originates from the image of dominoes falling in sequence after the first one is tipped. According to Cambridge Dictionary (n.d.), the Domino Effect is “the situation in which something, usually something bad, happens, causing other similar events to happen”. In terms of economics, it explains how a single change in one area of the economy can set off a chain reaction of changes in other sectors as well. This idea is commonly seen in economic activity, when modifications in one market or sector can have a ripple effect on others, resulting in broad economic effects (Kose & Claessens, 2013). Understanding the domino effect in economics can help policymakers, investors, and businesses make informed decisions. For example, the domino effect can be used to explain how an increase in diesel prices can impact other sectors of the economy by triggering a chain reaction of related events.

When discussing the impact of rising diesel prices on economic activity, it's essential to recognize the cascading effects across various sectors. Diesel fuel is a crucial input for many industries, especially those dependent on transportation and logistics. As the price of diesel increases, the cost of transporting goods rises, leading to higher prices for consumers and reduced profit margins for businesses. This escalation can slow down economic growth, particularly in sectors such as agriculture, manufacturing, and retail, where transportation costs represent a significant portion of operating expenses. The following examples illustrate how increased diesel prices can affect economic activities across different industries.

1. **Transportation Costs**: Diesel fuels most of the transportation needs. Rising diesel prices immediately affect the cost of goods and services that transportation requires. Consumers typically absorb this rise in the form of more expensive delivered items, which influences everything such as building supplies and food (Chan, 2024).

2. **Supply Chain Impact**: Rising diesel prices translate into higher transportation and distribution costs. Higher expenses faced by suppliers and distributors could be passed on to stores and finally to customers, therefore causing a general increase in prices in many different fields (Wieteska, 2018).

3. **Inflationary Pressure**: The rising cost of transport and goods leads to overall inflation. As prices for essential commodities rise, customers' purchasing power declines, resulting in lower spending and slower economic growth (Kpodar & Liu, 2022).

4. **Sector-Specific Effects**: Various industries are affected in different ways. According to the National Association of Home Builders (NAHB, 2024), the increased material and transportation expenses in the building industry can cause projects to lag and drive up the cost of new developments. In a similar vein, increasing transportation costs for produce in the agriculture sector may result in higher food prices.

5. **Consumer Spending**: Higher fuel prices results in a decrease in the disposable income of households, potentially resulting in reduced spending on non-essential products and services. Sectors such as retail, leisure, and hospitality may be adversely affected by this decline in demand (Kpodar & Liu, 2022).

The domino effect shows how a rise in diesel prices can set off a chain reaction of economic consequences, including higher transportation costs, inflated prices for goods and services, increased inflation, and reduced consumer spending. This interconnected influence impacts various industries in distinct ways, including slowing down construction activities and increasing food prices. Understanding these effects is crucial for making informed decisions in economic planning and policy.

CONCLUSION

The concept of the domino effect is crucial for understanding the interconnectedness of the global economy. It illustrates how various economies, industries, and regions are interlinked and dependent on one another, where a change in one area can trigger a chain reaction across others. Recognizing the potential for such cascading effects allows policymakers, businesses, and investors to anticipate more effectively and respond to shifts in the economic landscape. By considering these dynamics, they can implement strategies that enhance stability and resilience, mitigating the risks of widespread disruptions and fostering a more robust economic system.

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