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COST-PUSH AND DEMAND-PULL INFLATION IN INDIA - A FREQUENCY DOMAIN ANALYSIS

Abstract:

The study checks for causal effects of supply-side and demand-side instruments on domestic inflation in the frequency domain for India. The representatives for the cost push and demand pull factors for the study are international energy prices and domestic food prices (cost push) and output gap (demand pull). Domestic food price is found not to cause core inflation in the bivariate spectral method however in a multivariate framework there is significant causal effect. International energy price is found to cause core inflation only in the long run but output gap causes core inflation in the short run mostly. This signifies the differences in the supply side and demand side transmission mechanisms for causing inflation. The policy implications of the results show that a rise in the cost push inflation should be targeted with a long run perspective in mind, while inflation caused through demand pull channel should receive more attention in the short run.

Keywords:

Inflation, Causality, Spectral analysis, Frequency-domain analysis, Policy-making, Long-run, Short-run

JEL Classification: C32, C49, E00