

ABSTRACT

This paper analyses the dynamic effect of exchange rate pass-through (ERPT) to consumer and wholesale prices in India for the period 2005M1 to 2015M12. Moreover, it also focus on the differential effects of various macroeconomic variables on the Indian domestic prices. The analysis of ERPT is done using time series Vector Autoregressive Model (VAR) and innovation accounting tools like Impulse Response Function (IRF) and Forecast Error Variance Decomposition (FEVD) are used to measure the marginal effect of exchange rate shocks on domestic prices. The IRF results show that magnitude of pass-through is very less for consumer prices in comparison to wholesale prices. The variance decomposition results reveal the role of demand, supply and external factors in explaining variations in the domestic price variables.

Keywords: *Exchange Rate Pass-through, CPI, WPI, VAR, Impulse response function, Variance decomposition, India.*