

## ABSTRACT

RBI, under the supervision of the current governor Dr. Raghuram Rajan, on March 2015 adopted the Inflation Targeting framework. Since then there has been a lot of arguments in favour and against this Monetary Policy regime. While some believe that it's the next natural step for the RBI as Central banks of all major countries use this framework, on the other hand others believe that India's inflation is mostly supply driven and thus beyond the control of the RBI. This paper uses a Monetary Policy reaction function to determine the credibility of this framework for the historical India data and draw inferences from the results to determine whether this framework is what India needs or not.

Key words: Monetary Policy, Taylor's expansion, Inflation Targeting, Effective interest rate