

## **ABSTRACT**

This paper seeks to examine the relationship between inflation and GDP growth in India using quarterly data for a period starting from April 1996 to January, 2016. In particular, the study attempts to estimate the threshold inflation rate for India following the methodology proposed by Sarel (1996). In this regard, we first establish a long term co-integrating relationship between the variables using Johansen Co-integration test followed by error correction model. Next, we estimate a growth equation to determine the threshold level of inflation for India. The striking feature of the empirical evidence from this study is that the threshold inflation rate that maximizes the output growth turns out to be 2.1% quarterly.

Keywords: Inflation, Growth, Threshold inflation