

ABSTRACT

Inflation in India has been one of the most sought after topics of discussion of all seasons. Popular belief on volatility in inflation has been pinned down to supply side constraints. This paper tries to provide a perspective by way of analyzing the influence of demand and supply side factors on inflation in India using Structural VAR approach. By introducing long-term constraints, this paper finds evidence that demand factor explains relatively more the variation in inflation rates. The influence of domestic demand in particular is more pronounced.

Key Words: Inflation, Demand, Supply, Structural VAR, Long-term.