

## **ABSTRACT**

The study examines the hedging effectiveness of gold in India during the period January 1991 and November 2012. The extent to which gold has acted as a hedge against stock price fluctuation and inflation rate is assessed using monthly data for the last twenty two years. A negative relationship is indeed found between gold prices and CPI index, and CPI index and stock price, while the stock prices and gold prices seem to have shared a positive relationship but the strength of this relationship has shifted over time. The returns, however have portrayed a different story altogether with returns on gold sharing no correlation with the stock price returns while returns on gold seem to have a negative relationship with inflation rate. The study thus concludes that although gold has served as a hedge against various economics fluctuations, it can prove to be an effective hedge against inflation only in the high momentum periods in India. Investors should guard themselves with effective strategy during low momentum period.