

IS GOLD A HEDGE AGAINST INFLATION?

A CASE STUDY OF INDIA

ABSTRACT

Inflation has the ability to dissolve the value of investment portfolios. In order to protect themselves from the risk of inflation, investors buy assets that they expect to maintain or increase in value when the general levels of prices increase. In this context, gold due to its special characteristics is often considered as one of these assets. This dissertation examines the extent to which gold is a hedge against inflation using India's data for the period between May 1994 and February 2016. This study also talks of the determinants of the price of gold. Using the empirical analysis based on Johansen Co-integration test and VECM model, we conclude that gold is a hedge against inflation in the long- run.