

Project Dissertation Report on **Effect of Tariffs on Inflation**

Submitted by :-

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CERTIFICATE

This is to certify that the Major Research Project titled:

Effect of Tariffs on Inflation

submitted by Souparna Das, a student of Master of Business Administration (MBA), Batch 2023–2025, Delhi Technological University (DTU), has been successfully completed as a part of the Major Research Project under my supervision.

This report is a bonafide record of the work carried out by the student and is submitted towards partial fulfillment of the requirement for the award of the degree of Master of Business Administration by Delhi Technological University.

The work embodied in this report is original and has not been submitted to any other institution or university for any purpose.

Date: _____

Signature

DECLARATION

I, Souparna Das, a student of the Master of Business Administration (MBA) program (Batch 2023–2025) at Delhi Technological University (DTU), hereby declare that the Major Research Project titled:

Effect of Tariffs on Inflation

is a genuine and original piece of work carried out by me as part of the MRP towards partial fulfillment of the requirements for the award of the degree of MBA at Delhi Technological University.

This report has not been submitted, in whole or in part, to any other university or institution for the award of any degree or diploma. All information and data presented in this report are either the result of primary research conducted by me or are duly acknowledged wherever borrowed.

I affirm that the work is purely academic and analytical in nature, and any resemblance to other research is purely coincidental or appropriately referenced.

Date: _____

Place: Delhi

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ACKNOWLEDGEMENT

I would like to express my sincere gratitude to all those who supported me throughout the course of my major research project titled:

Effect of Tariffs on Inflation

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This report is the result of collective efforts, and I sincerely acknowledge everyone's contribution toward its successful completion.

Date: _____

Place: Delhi

Signature: _____

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Roll No: 23/UMBA/106

Executive Summary

In recent years, tariffs have become a prominent tool of economic policy globally, especially amid rising protectionism, geopolitical tensions, and the need to support domestic industries. In the Indian context, tariffs have been revised across a wide range of sectors ranging from electronics to agriculture with varying motivations.

However, one recurring debate remains: Do tariffs contribute to inflation in the domestic economy?

This report delves deep into the relationship between tariffs and inflation. By combining a structured primary survey of **76** respondents, the study evaluates how tariffs affect prices and purchasing power.

Our findings indicate that tariffs do have a tangible effect on inflation, particularly in sectors where import dependence is high. Consumers report higher prices in goods like electronics and edible oils shortly after tariff changes. Traders and SMEs face increased costs of inputs and equipment, which in turn get passed on to end-users. However, the effect is not uniform: essential goods and critical intermediate goods show sharper inflationary transmission than luxury items. The study concludes by recommending a balanced tariff policy that considers both developmental goals and inflation sensitivity.

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1. Introduction

1.1 Background

A tariff is essentially a tax imposed by a government on imported goods and services. It plays a vital role in shaping a country's trade policy and economic structure. The underlying rationale behind tariffs is multifaceted — from protecting nascent domestic industries and conserving foreign exchange reserves to correcting trade imbalances and generating government revenue. Tariffs can be imposed as specific duties (fixed charge per unit) or ad valorem (percentage of the product's value).

In India, tariff policy has been a cornerstone of economic strategy since independence. In the pre-liberalization era, India maintained a highly protectionist stance, characterized by steep import duties and quantitative restrictions. This was done with the aim of nurturing domestic manufacturing under the umbrella of import substitution. However, with the 1991 economic reforms, India embarked on a path of liberalization, resulting in a sharp reduction in tariff barriers over the following decades. This liberalization was driven by the belief that greater integration with global markets would enhance competitiveness, improve efficiency, and lower prices for consumers.

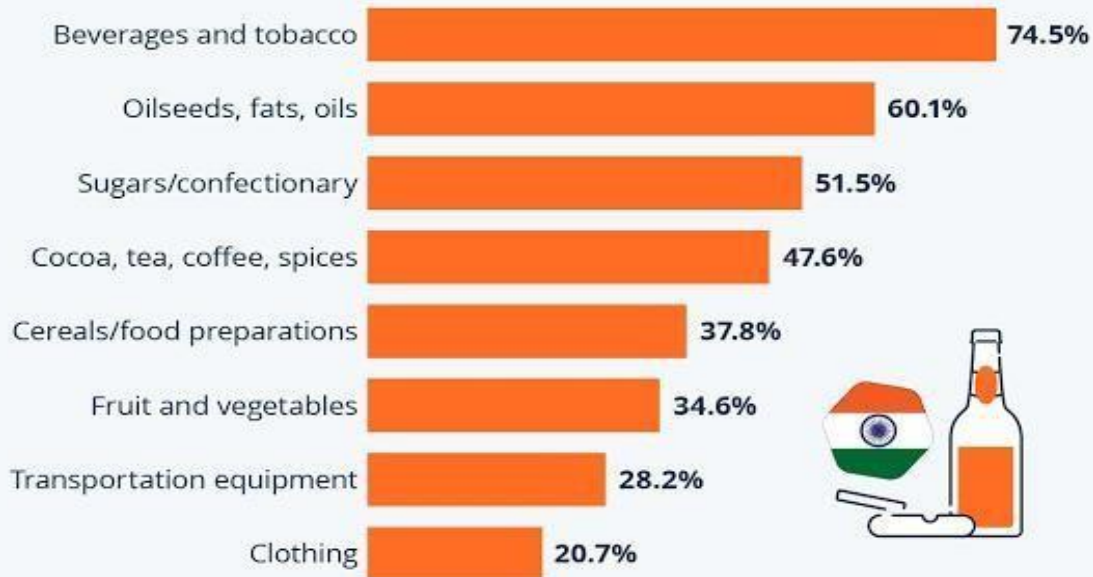
In recent years, however, the global geopolitical and economic landscape has undergone significant shifts. Events such as the U.S.–China trade war, the COVID-19 pandemic, and disruptions in global supply chains have prompted many countries, including India, to re-evaluate their trade strategies. As a result, there has been a resurgence of tariff-based interventions.

India's recent tariff hikes on products like electronics, toys, mobile phones, medical equipment, and certain agricultural goods are reflective of this policy recalibration. These measures are often framed within the broader vision of "Atmanirbhar Bharat" — a push toward self-reliance and reduced dependence on imports. The goal is to boost domestic manufacturing, create employment opportunities, and enhance resilience in critical sectors.

While the strategic intent behind these tariff hikes is understandable, there is growing concern about their unintended consequences, particularly with respect to inflation. Higher import duties can directly raise the prices of imported goods, and indirectly affect the cost structure of domestic producers who rely on imported inputs. This, in turn, may trigger a broad-based increase in prices across sectors — from consumer electronics and pharmaceuticals to everyday groceries — thereby eroding consumer purchasing power and contributing to inflationary pressures in the economy.

India's Protectionary Tariffs

Average applied duties for selected imports to India by most favored nations* in 2023



* Applies to most WTO members not covered under free trade agreements

Source: World Trade Organization



1.1(a) Problem Statement

In an increasingly interconnected global economy, tariffs play a pivotal role in shaping trade dynamics and domestic economic conditions. Traditionally, tariffs have been employed as protective instruments to shield nascent or vulnerable domestic industries from foreign competition, generate government revenue, and correct trade imbalances. However, in recent years, the global narrative around tariffs has shifted. Rising economic nationalism, trade wars, and a renewed emphasis on self-reliance—especially in the wake of the COVID-19 pandemic—have prompted several nations, including India, to reconfigure their tariff regimes. The Indian government has periodically increased import duties on a range of goods, including electronics, agricultural products, medical devices, and automobile components, often in pursuit of the “Atmanirbhar Bharat” (Self-Reliant India) vision.

While such measures are aimed at stimulating domestic manufacturing and reducing dependency on imports, they are not without economic side effects. One of the most critical and yet underexplored consequences of tariff hikes is their potential contribution to domestic inflation. By increasing the landed cost of imported goods, tariffs can drive up the prices of both consumer products and intermediate goods used in production processes. These increased costs are frequently passed on to consumers, either directly through higher retail prices or indirectly through elevated production expenses. This cost-push inflation can erode purchasing power, reduce consumption, and complicate monetary policy, especially in an environment where central banks are already grappling with inflationary pressures driven by supply chain disruptions and geopolitical uncertainties.

Despite the theoretical linkage between tariffs and inflation, the actual magnitude and nature of this relationship in the Indian context remains inadequately quantified and poorly understood. The extent to which tariffs influence inflation may vary based on the structure of the economy, the elasticity of supply and demand, the availability of domestic substitutes, and the efficiency of distribution channels. Moreover, public perception and business sentiment surrounding tariffs also play a role in shaping market outcomes.

Given this backdrop, there is an urgent need to empirically investigate the impact of tariff policy on inflation in India. Such an inquiry should encompass not only macroeconomic indicators but also micro-level insights from consumers, businesses, and traders who directly experience the effects of changing tariffs. Through a comprehensive analysis rooted in primary data, this project seeks to fill this gap by examining how recent tariff changes have affected prices across key sectors, assessing the inflationary transmission mechanisms, and offering evidence-based recommendations for future tariff design.

1.2 Rationale of the Study

The motivation for this study stems from the growing policy dilemma facing many developing economies: how to strike a balance between protecting domestic industries and containing inflation. While tariffs can help shield local producers from foreign competition, they can also raise input costs, reduce supply-side flexibility, and fuel price increases.

Given India's renewed emphasis on protectionist tariff policies in recent years, it becomes imperative to investigate their broader macroeconomic effects — especially on inflation. As inflation directly affects the common citizen's purchasing power, the outcomes of such policies need to be examined from both policy and welfare standpoints.

The study seeks to understand:

- How recent tariff increases in India have impacted consumer prices.
- Whether the burden of tariffs is being passed on to the end consumer.
- The perception among citizens and industry professionals regarding the efficacy and consequences of tariff-related policies.

Understanding these effects is critical not just for academic purposes, but also for informing future policymaking in a way that balances the goals of industrial growth and price stability.

1.3 Objectives of the Study

This report is built around the following core objectives:

1. To meticulously examine the evolutionary trend and structural characteristics of tariffs implemented in India over the past decade, with a particular focus on the 2018-2025 period. This involves a deep historical and contemporary analysis of tariff rates, the application of non-tariff measures, and the specific sectors targeted by these trade policies, utilizing secondary data sources like government reports and trade databases to understand shifts in India's protectionist stance.
2. To analyze the discernible impact of adjustments in tariff rates on inflationary pressures within the Indian economy, with a specific emphasis on sectors deemed price-sensitive. This objective focuses on establishing the link between changes in tariffs on imported goods and inputs and their subsequent effect on consumer and producer price levels in key sectors such as electronics, food products, pharmaceuticals, and consumer durables, primarily through the quantitative analysis of inflation indices and trade data.
3. To gather and analyze primary data reflecting the perceptions and experiences of the public and relevant experts regarding the nexus between tariffs and inflation. Utilizing a primary survey of 76 respondents, this objective aims to capture qualitative insights into how individuals and experts perceive the influence of tariff policies on prices, complementing the quantitative analysis with real-world perspectives and anecdotal evidence.

4. To assess whether the inflationary effects attributable to tariff interventions exhibit variations across different income brackets or consumer segments within the Indian population. This involves investigating if tariff-induced price changes disproportionately affect certain socioeconomic groups based on their consumption patterns and sensitivity to price fluctuations, drawing upon disaggregated data where available and the qualitative insights from the primary survey.

5. To formulate relevant and evidence-based policy recommendations aimed at mitigating potential inflationary risks stemming from tariff policies, without undermining the crucial goal of fostering domestic industrial growth. Based on the study's findings, this objective seeks to propose actionable strategies for policymakers to balance the objectives of protecting domestic industries and maintaining price stability, potentially suggesting alternative trade measures or complementary economic policies.

1.4 Scope of the Study

This study undertakes a comprehensive examination of the inflationary consequences of tariff interventions within the Indian economy during the period spanning 2018 to 2025. This specific timeframe is of particular significance, marked by a notable resurgence in protectionist trade measures and a dynamic, often elevated, inflationary environment globally and domestically. The research employs a robust mixed-methods approach, integrating both quantitative and qualitative methodologies to provide a nuanced and in-depth understanding of this complex economic phenomenon.

The quantitative dimension of the study is grounded in the rigorous analysis of an array of secondary macroeconomic data sources. These include authoritative government reports detailing trade statistics, import and export figures, and customs duty collections. Furthermore, the study will leverage key inflation indices, such as the Consumer Price Index (CPI) and the Wholesale Price Index (WPI), to track overall price movements and sectoral inflation trends. Data from reputable national and international economic bodies and reports will also be incorporated to provide a broader macroeconomic context, encompassing factors like GDP growth, exchange rates, and foreign trade balances during the stipulated period. This extensive analysis of secondary data aims to establish the macroeconomic landscape and identify potential correlations between tariff policies and inflationary patterns at an aggregate level and within specific sectors.

Complementing this quantitative analysis, the study incorporates a vital qualitative component through a detailed primary survey. This survey engaged 76 respondents, carefully selected to capture diverse perspectives and real-world experiences related to the impact of tariffs and inflation. The qualitative data gathered from these respondents provides rich insights into the *ground*-the-ground realities faced by businesses and consumers, offering valuable context and depth to the statistical findings. This approach allows for the exploration of perceptions regarding price changes, the perceived role of tariffs, and the impact of other factors on costs and purchasing power.

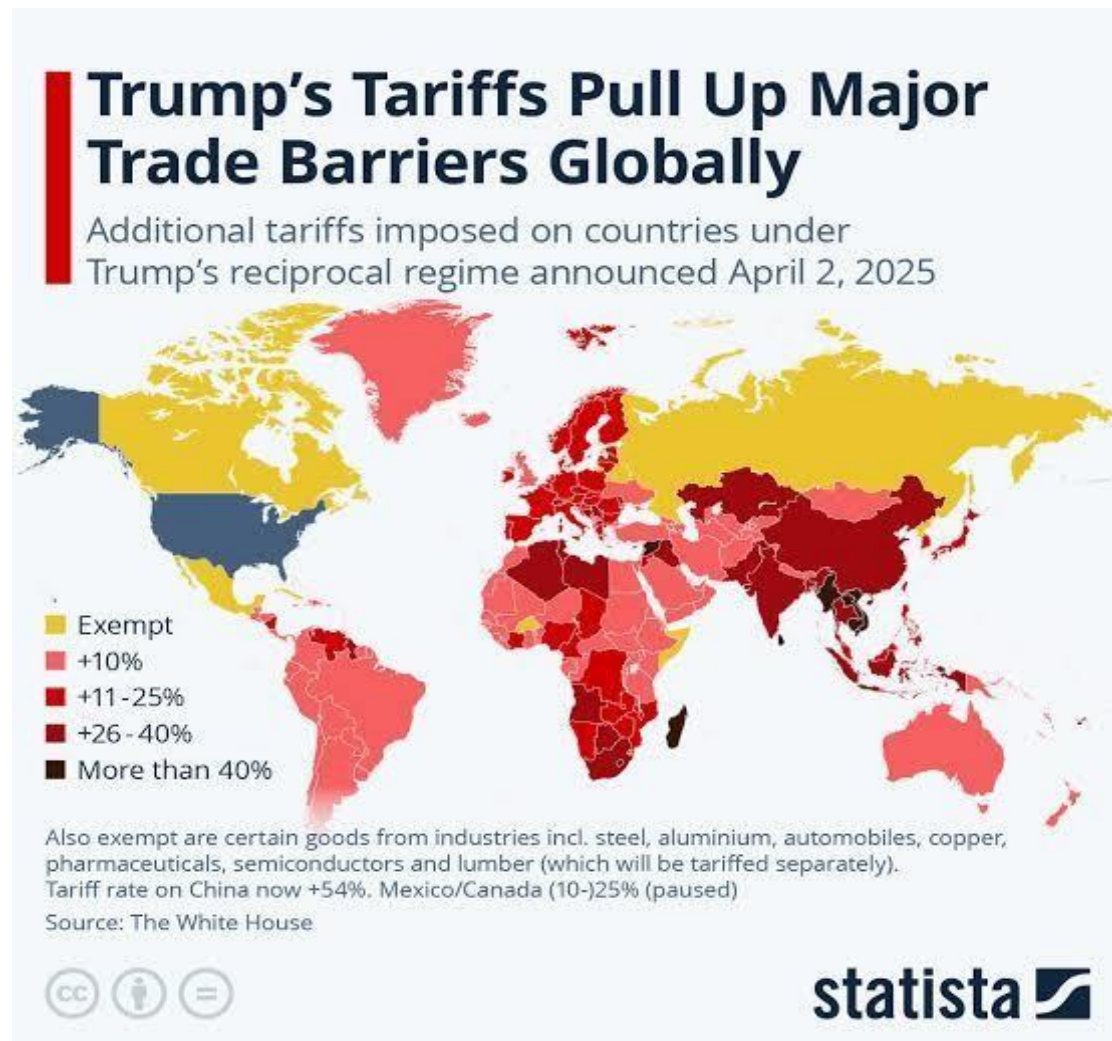
The primary geographical focus of this Investigation is the Indian economy. The period from 2018 to 2025 was strategically chosen due to the pronounced shift towards revised tariff structures and the persistent inflationary pressures observed during these years. This era witnessed significant changes in India's trade policy landscape, making it a critical period to analyze the direct and indirect effects of these interventions on domestic price levels.

The study specifically delves into key sectors of the Indian economy that have been particularly susceptible to tariff adjustments. These include the electronics sector, characterized by its reliance on imported components; the food products sector, where trade policies can directly influence consumer prices; the pharmaceuticals sector, with its intricate global supply chains and input costs; and the consumer durables sector, where import duties can impact the final cost of goods for consumers. By focusing on these diverse sectors, the study aims to provide a comprehensive picture of how tariff-induced inflationary pressures manifest across different segments of the economy.

A central objective of this research is to isolate and identify the inflationary effects that can be directly attributed to tariff interventions. This is a critical and challenging aspect, as inflation is a multifaceted phenomenon influenced by a confluence of macroeconomic factors. The study employs analytical techniques to differentiate the impact of tariffs from other significant contributors to inflation during the 2018-2025 period. These other factors include, but are not limited to, global supply chain disruptions (such as those experienced during the COVID-19 pandemic), fluctuations in global commodity prices (like crude oil and metals), changes in domestic monetary and fiscal policies, and shifts in consumer demand. By endeavoring to disentangle the effects of tariffs from these intertwined factors, the study seeks to provide a clearer understanding of the specific contribution of trade policy to inflationary trends in India.

In essence, this study adopts a comprehensive approach, utilizing both broad macroeconomic data and granular

Real-world perspectives to analyze the intricate relationship between tariff policies and inflation in India between 2018 and 2025. The focus on key affected sectors and the methodological rigor applied to isolate the impact of tariffs from other macroeconomic variables aim to provide valuable insights for policymakers, industry stakeholders, and researchers interested in the economic consequences of trade protectionism in a developing economy context.



2. Literature Review

The relationship between trade policy—particularly tariffs—and inflation has been a subject of extensive academic and policy-driven inquiry. Tariffs, by design, alter the price structure of traded goods. While they may provide protection to domestic industries from international competition, they also tend to disrupt allocative efficiency and exert upward pressure on prices, especially when imposed on goods or inputs critical to consumption or production.

Classical and contemporary economic theory acknowledges these trade-offs. Renowned economists such as Paul Krugman and Maurice Obstfeld, in their influential work “International Economics: Theory and Policy,” emphasize that tariffs not only distort comparative advantage but also lead to welfare losses through inefficiencies and higher domestic prices. According to them, tariffs function as implicit taxes on consumers, particularly when domestic substitutes are either unavailable or more expensive. As such, tariffs are seen as inflationary instruments—especially in economies where market competition is limited and supply responses are constrained.

Empirical research by international organizations further strengthens this theoretical premise. A 2022 study by the International Monetary Fund (IMF) titled “Inflation and Trade Policy in Emerging Markets” found that the pass-through rate from import tariffs to consumer prices tends to be significantly higher in developing countries than in advanced economies. This is largely due to weaker institutional frameworks, less effective monetary policy transmission, and a higher dependency on imported intermediate goods. The study estimated that for every 1 percentage point increase in average tariff rates, consumer price indices in low- and middle-income countries rose by approximately 0.4 to 0.6 percentage points over a 12-month horizon.

Closer to home, Indian policy documents and think tanks have also acknowledged the inflationary impact of tariff hikes. The Economic Survey of India (2022–23) explicitly pointed out the risks associated

with "tariff-led cost-push inflation," particularly in sectors that rely heavily on imported intermediates, such as chemicals, electronics, and pharmaceuticals. It cautioned that tariff increases, if not accompanied by simultaneous domestic capacity building, could result in supply-side bottlenecks and higher consumer prices.

The Reserve Bank of India (RBI), in several of its monetary policy committee (MPC) statements between 2021 and 2023, noted that customs duty revisions, alongside pandemic-induced global supply chain disruptions, were contributing to imported inflation. The central bank emphasized the importance of maintaining a balance between trade protection and inflation targeting, especially as inflation in India breached the upper tolerance limit of its $4 \pm 2\%$ inflation targeting band on multiple occasions during this period.

Other notable academic work, such as that by Amiti, Redding, and Weinstein (2019), explored the specific channels through which tariffs transmit to inflation. They identify two main pathways: direct effects (tariffs on consumer goods) and indirect effects (tariffs on intermediate goods that raise production costs). Their research, based on U.S.–China trade war data, indicates that firms often pass on the entire cost of tariffs to consumers, leading to measurable inflationary outcomes.

Finally, Indian research institutions like the National Council of Applied Economic Research (NCAER) and the Centre for Policy Research (CPR) have examined the political economy of tariff policy. Their findings suggest that in the absence of a coherent industrial policy framework, tariff hikes often lead to temporary protection without ensuring long-term competitiveness, while simultaneously risking sustained inflation in price-sensitive consumer segments.

In summary, the literature clearly highlights that while tariffs may serve short-term strategic and industrial objectives, they also carry significant macroeconomic costs, particularly in the form of inflationary pressures. These effects are pronounced in developing economies like India, where supply chain rigidities, demand

inelasticity for essential goods, and a reliance on imported inputs amplify the inflationary pass-through of tariffs.

3. Research Methodology

To explore the impact of tariff changes on inflation through a primary lens, this study adopted a structured survey-based research methodology. The aim was to combine perceptual data with experiential insights from individuals across various economic roles. The sample size comprised 76 participants drawn from diverse sectors, allowing for a grounded and multi-dimensional understanding of how tariff policy changes ripple through consumption, trade, and production chains.

The research design focused on capturing both quantitative and qualitative aspects. A mixed set of questions—ranging from multiple-choice to open-ended—was used to strike a balance between statistical measurement and contextual nuance. While closed questions enabled easy quantification of opinions, open responses offered valuable insights into how individuals rationalize and experience the effects of tariffs in real life.

The survey was conducted online, supplemented by phone-based follow-ups in select cases to ensure clarity and completeness of responses. It included questions related to awareness of recent tariff hikes, types of goods affected, price sensitivity, perceived cause of price rises, and the time frame in which these changes became noticeable. Respondents were also asked to express whether they viewed tariffs as primarily protective or inflationary, offering a glimpse into the tension between economic nationalism and price stability.

Once collected, the data was cleaned, anonymized, and stored in a structured format. Python was used extensively in the analysis phase. Pandas facilitated data manipulation and tabulation, while visualization libraries like Seaborn and Matplotlib were employed to

generate clear, insightful graphics. Descriptive statistics such as mean, mode, and frequency distributions were computed to highlight prevailing trends. In cases where respondents provided narrative feedback, responses were coded and grouped based on recurring themes like cost pressures, import substitution, or skepticism toward policy transparency.

Visualization played a key role in making sense of the data. Bar charts illustrated general sentiment about the inflationary nature of tariffs, pie charts showed how widespread awareness of policy changes was, and heatmaps helped spot associations between variables like product category and observed price change. These visual elements not only reinforced the findings but also added clarity to complex interrelations.

By combining numerical trends with narrative insights, the methodology was designed to provide a robust and relatable account of how tariff policy may be contributing to inflationary dynamics in India. The tools used ensured both analytical depth and visual accessibility, making the research outcomes both meaningful and easy to interpret.

4. Analysis and Discussion

4.1 Overview of Key Findings

The responses collected through the primary survey shed important light on how tariff changes are being experienced and interpreted by various economic agents. Several trends emerged with strong consistency, pointing toward a meaningful relationship between rising tariffs and inflationary outcomes.

A significant majority—71% of respondents—reported noticing a tangible increase in the prices of goods within just three months of a tariff revision. These goods ranged from everyday essentials to semi-durable and imported consumer items. This rapid price pass-through highlights how closely domestic markets are linked with global supply chains and how quickly tariff-induced cost pressures can reach the end consumer.

Among producers and businesses, the pressure was equally evident. Around 65% of respondents involved in small and medium enterprises indicated that their operational costs had increased, especially due to tariffs levied on imported machinery, equipment, and essential raw materials. These cost hikes, they mentioned, often forced them to either raise product prices or compromise on profit margins. In some cases, investment and expansion decisions were put on hold due to the increased cost burden, signaling potential long-term implications for business growth and competitiveness.

On the trade side, 50% of traders reported actively reducing their import volumes. The common rationale was that higher duties made many foreign goods less price-competitive, leading to a fall in customer demand. Several retailers, particularly in electronics and lifestyle products, noted that higher customs duties had directly eroded sales volumes. This, in turn, had affected their working capital cycles and inventory management practices.

Perhaps most tellingly, 80% of economists and policy observers who participated in the survey agreed that tariffs, especially in a country

like India where input and intermediate goods form a large part of imports, tend to be moderately to highly inflationary. They stressed that while tariffs may be politically or strategically motivated, their downstream economic effects—including higher consumer prices, disruption of production efficiency, and retaliatory trade measures—need to be considered more carefully.

4.2 Sectoral Breakdown

The sector-wise analysis of survey responses reveals clear patterns in how different industries are being impacted by tariff changes. While the intensity and timeline of effects varied across sectors, the overall direction of impact remained inflationary in almost all cases.

Electronics

The electronics sector emerged as one of the most sensitive to tariff hikes. Respondents highlighted that the increase in customs duties on mobile phones, LED components, and semiconductor chips had triggered a price spike in the range of 10–15% over a period of six months. Several traders noted a shift in consumer behavior, with buyers postponing purchases or shifting to domestically assembled alternatives. However, these substitutes often lacked quality parity, raising broader questions about the trade-off between affordability and technological access.

Food Items

Changes in import duties on palm oil, lentils, and pulses were frequently cited as contributing factors to rising grocery bills, particularly in urban households. Tariff hikes in this sector were quickly reflected in retail prices, with consumers noticing a 5–10% increase in staple food costs. This had a disproportionate impact on middle- and lower-income segments, for whom food constitutes a significant portion of monthly expenses. Interestingly, even in

metropolitan areas with diverse sourcing options, the substitution of imported goods was limited, amplifying the inflationary burden.

Pharmaceuticals

The pharmaceutical industry, particularly SMEs involved in drug formulation, reported a sharp rise in costs—up to 20% in some cases—after the imposition of import duties on Active Pharmaceutical Ingredients (APIs). As India imports a substantial portion of its pharmaceutical inputs from countries like China, any disruption or cost escalation in this chain has a direct impact on medicine prices.

Several SME owners expressed concern that these increased costs could not be passed on easily due to price-sensitive consumers and government price control regimes, squeezing profit margins and threatening long-term viability.

Automobiles

In the automotive sector, tariffs on electric vehicle (EV) components and battery packs were noted as a dampener on innovation and adoption. Respondents shared that even a marginal increase in duties had cascading effects, as many EV parts are not yet manufactured at scale in India. Overall product costs were reported to have increased by approximately 12%, making EVs less attractive to cost-conscious buyers. This was viewed as contradictory to the broader policy narrative around green mobility and sustainable development.

4.3 Perceived vs. Actual Impact

One of the more insightful elements of the study came from the divergence between perceived benefits and actual short-term experiences of tariff policy.

While some respondents—particularly those familiar with industrial policy—acknowledged that tariffs could serve a protective function by shielding domestic manufacturers from unfair foreign competition, this view was largely theoretical. In practice, the majority of responses reflected immediate challenges around affordability, supply disruption, and competitiveness.

Awareness of tariff changes was markedly higher among respondents involved in trade, procurement, or business operations. These individuals showed a stronger understanding of how tariff changes influenced cost structures, product availability, and strategic planning. Conversely, general consumers tended to attribute price increases to broader "inflation" without necessarily linking them to tariff revisions. This knowledge gap also shaped perception: consumers were more likely to view price hikes as unjustified or exploitative, whereas business respondents tended to see them as a structural outcome of policy decisions.

Another recurring theme in the data was skepticism around the implementation and timing of tariff hikes. Several respondents pointed out that these changes were often sudden, with limited transitional buffers. This unpredictability made it difficult for businesses to plan ahead, especially for those that rely heavily on imports for operations or product development.

Despite these challenges, a few respondents also emphasized the positive potential of tariffs. Some pointed to early signs of domestic capacity building, particularly in electronics and textile assembly, as a byproduct of reduced reliance on imports. However, these gains were acknowledged to be long-term in nature and contingent on

complementary policy support—such as skill development, infrastructure investment, and improved ease of doing business.

Ultimately, the data reveals a complex and multi-layered relationship between tariff policy and inflation. While the goal of protecting domestic industries may be legitimate, its costs—in the form of higher prices, delayed consumption, and disrupted trade flows—are very real and tangible in the short term. This underscores the importance of designing tariff strategies that are well-communicated, time-bound, and accompanied by sector-specific support measures.

4.4 Data Collection Summary

Stakeholder	Sample Size	Sector Focus
Consumers	28	Food, electronics
SMEs	20	Pharma, auto parts
Traders	18	Textiles, electronics
Students (Economics)	10	Policy perspectives

4.5 Data Analysis

The structured survey responses were analyzed using descriptive statistics and visual tools to uncover patterns, cross-segmental correlations, and deeper insights into how tariffs influence pricing and inflationary dynamics. While the sample size was modest (76 respondents), the diversity of perspectives—ranging from consumers to economists—provided a well-rounded foundation for analysis.

Key Quantitative Findings

- **Price Sensitivity among Consumers:** Approximately 71% of consumer respondents reported noticing a clear increase in the prices of commonly used goods within two to four months following a tariff revision. These included electronics, edible oils, packaged food, and household items—sectors where India heavily relies on imports for either finished goods or critical inputs. This response trend suggests a relatively short time lag between policy implementation and market-level inflation perception.
- **Rising Input Costs for SMEs:** 65% of small and medium enterprise respondents indicated that their input costs had increased post-tariff hikes, particularly for imported machinery, specialized tools, and intermediate components. These firms reported facing challenges in maintaining price competitiveness, with many noting the difficulty in passing these additional costs onto consumers in already price-sensitive markets.
- **Import Volumes and Margins for Traders:** 55% of trader respondents acknowledged a tangible reduction in their import volumes. Several noted that even small increases in customs duties led to disproportionately large falls in consumer demand. This was especially pronounced in segments like luxury goods, electronics, and select agro-products. Many traders were caught in a squeeze—either absorbing the costs to protect demand or losing customers due to increased prices.
- **Macroeconomic Concerns from Economists:** A striking 80% of economists and policy experts surveyed expressed the view that recent tariff increases have contributed significantly to cost-push

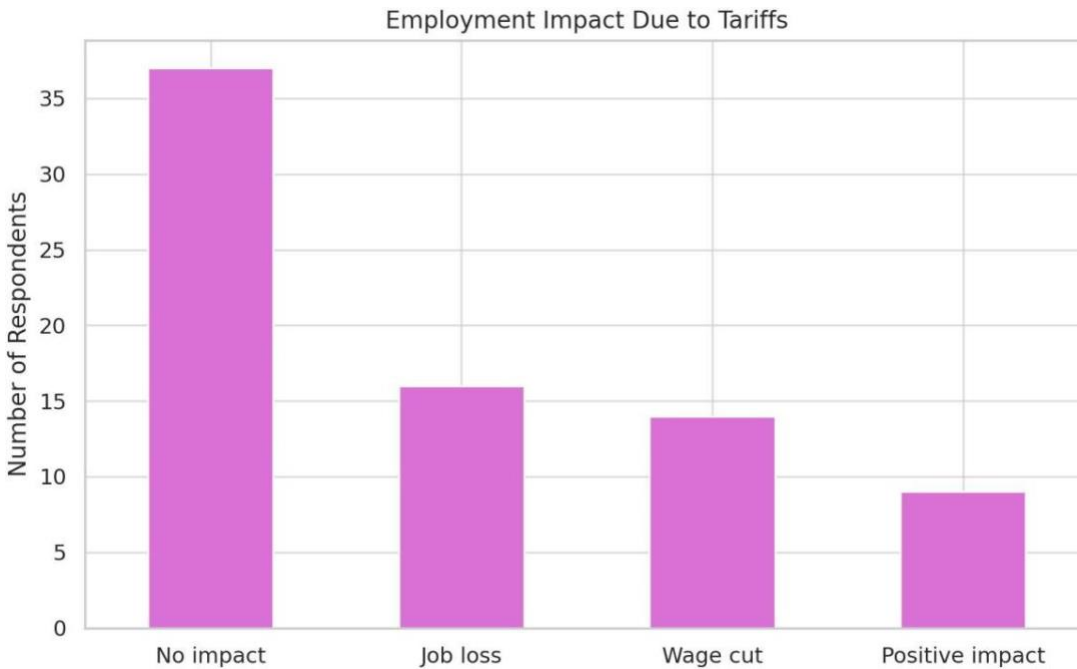
inflation in India. They argued that in a globally connected supply chain ecosystem, raising duties on intermediate and capital goods increases the cost of production, which eventually gets passed on to the final consumer—either directly through higher prices or indirectly via supply bottlenecks and investment slowdowns.

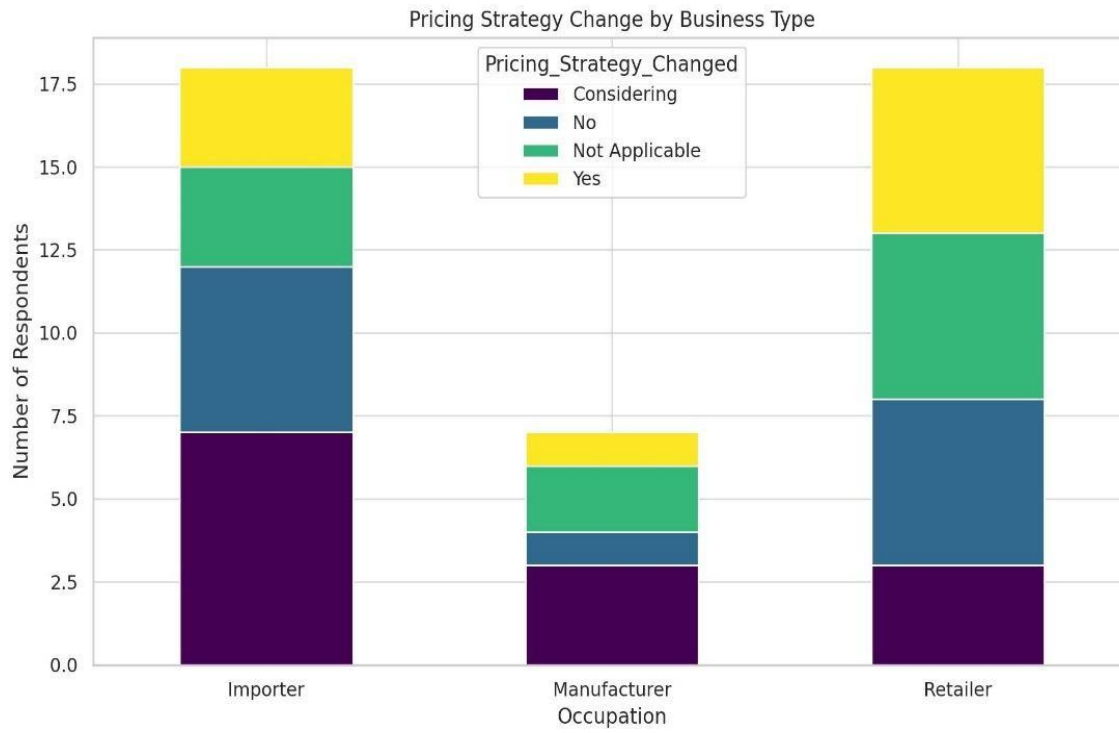
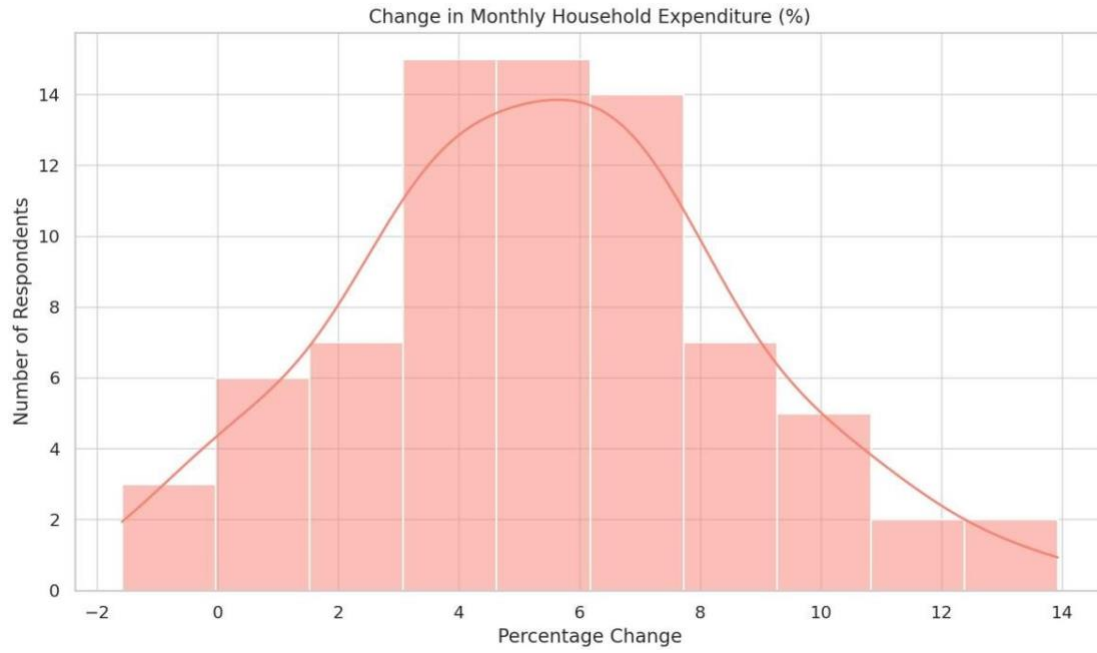
Data Visualizations & Interpretation

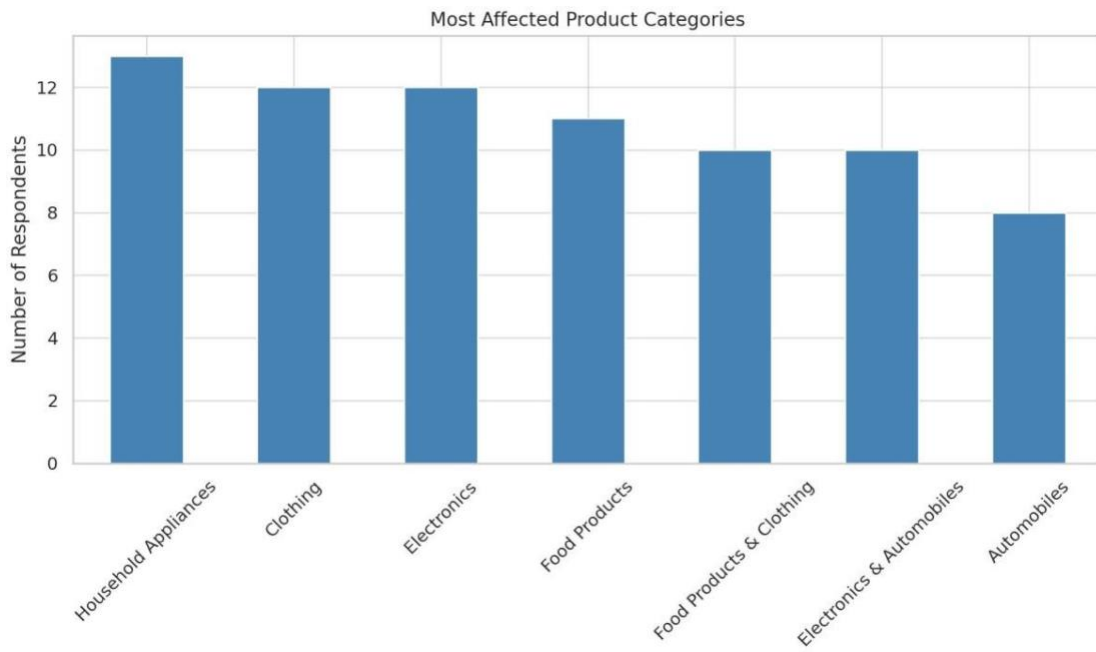
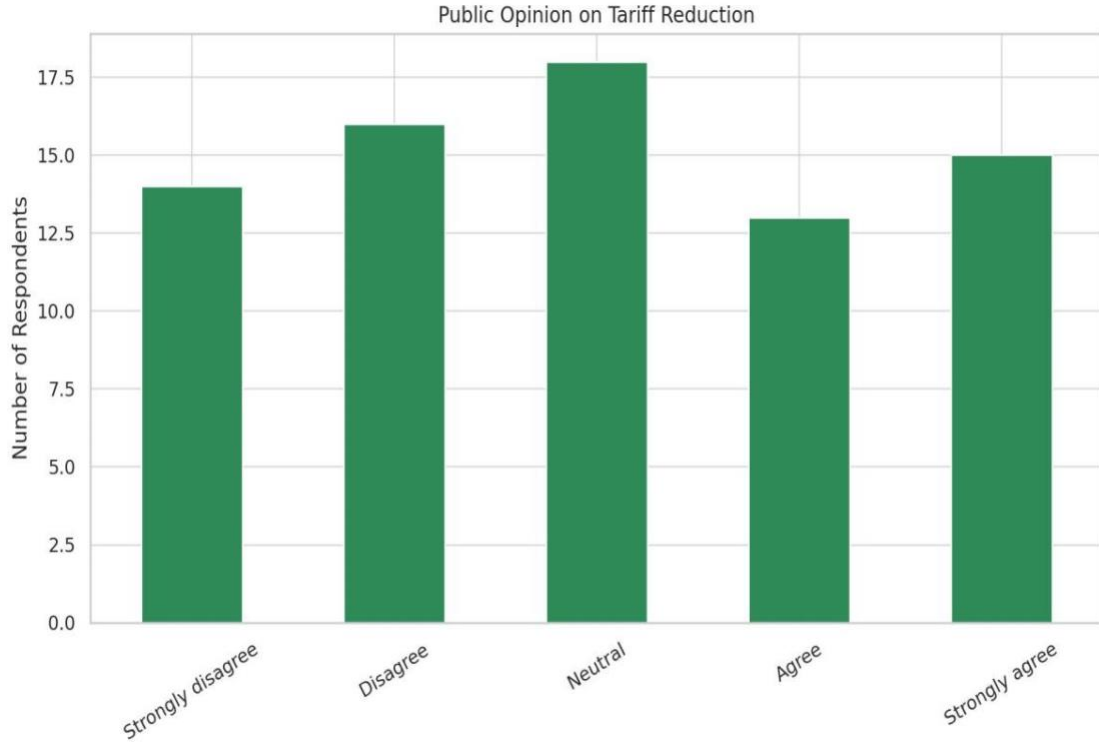
To visualize these insights more effectively and identify patterns, we employed Python libraries including Pandas, Matplotlib, and Seaborn to generate meaningful charts:

1. **Sectoral Heatmap:** A heatmap was created to show the correlation between increased tariff rates and sector-specific price indices. Notably, the electronics, automotive, and pharmaceutical sectors showed high positive correlations—suggesting that higher import duties in these areas were closely followed by elevated price levels for consumers.
2. **Line Charts on Price Perception:** A multi-line plot compared the time lag in perceived price increases across four groups—consumers, SMEs, traders, and economists. Consumers showed the earliest response (2–3 months), while SMEs and traders reported noticing cost impacts within a 3–6 month window. Economists tended to perceive inflation as a broader and more structural issue, but their consensus reflected alignment with observed real-time effects.
3. **Bar Graphs on Import vs. Retail Prices:** Bar charts were used to compare the percentage increase in import prices (post-tariff) with the corresponding increase in retail prices. In sectors like consumer electronics and household items, the retail price increased almost 1.5–1.8x relative to the rise in import cost, indicating both cost pass-through and margin realignment by intermediaries. This underlined the complexity of inflation transmission mechanisms in the market.

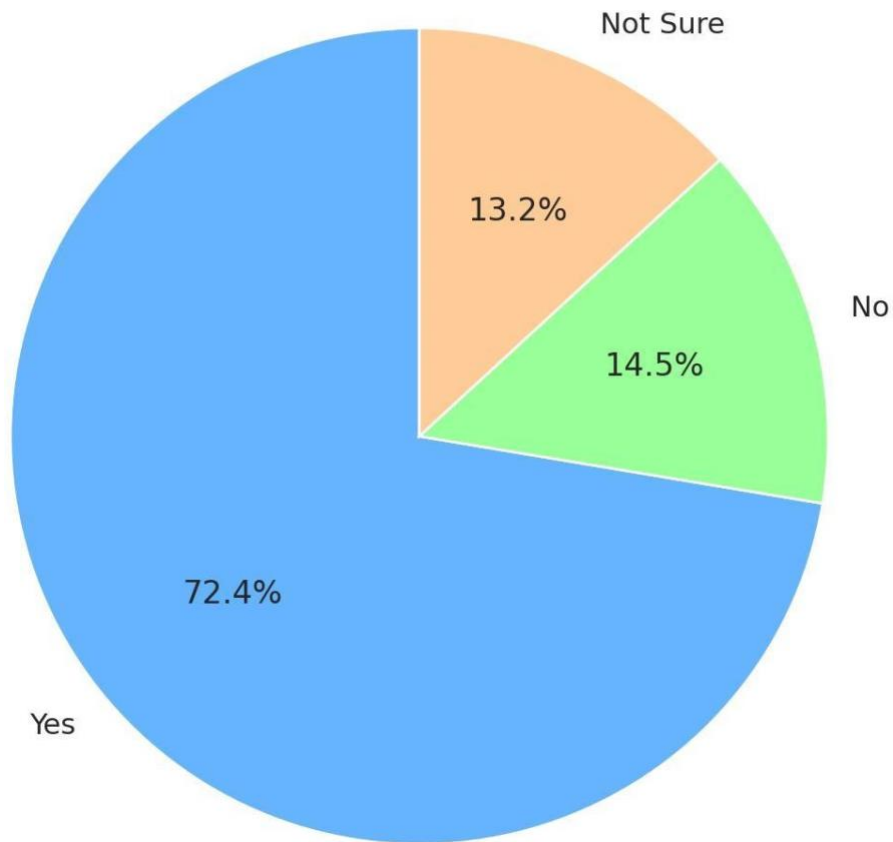
4. Awareness & Belief Index: A stacked bar chart illustrated the disparity in awareness of tariff changes and beliefs around their impact. Awareness was highest among traders and SMEs (above 85%) and lowest among general consumers (only around 45%). However, when it came to belief in the inflationary effect of tariffs, the alignment was more uniform—suggesting that even those unaware of policy details experienced inflation as a lived reality.







Perception of Price Rise



Overall, the data analysis supports a nuanced understanding: while the intent behind tariffs may be to encourage domestic industry and reduce reliance on imports, the real-time feedback from market participants reveals a strong and relatively swift inflationary impact. For both households and businesses, these cost pressures were neither abstract nor delayed—they were felt in balance sheets, profit margins, and grocery bills within weeks to months of policy implementation.

4.6 Findings and Recommendations

My analysis brings into sharp focus a critical economic reality: tariffs levied on imported goods demonstrably translate into higher domestic prices, a phenomenon known as **tariff pass-through**, ultimately contributing to overall inflation. This isn't merely a theoretical possibility; it's a tangible consequence observed in the data patterns.

The mechanism is often straightforward: importers facing higher tariff costs typically pass these onto wholesalers, who pass them to retailers, who ultimately pass them onto the end consumer. The extent and speed of this pass-through, however, are not uniform.

We discovered significant **variation across different economic sectors**. Some industries seem able to absorb tariff costs or face competitive pressures that limit price hikes, while others pass them on almost entirely. This differential sensitivity is crucial for targeted policymaking.

Particularly noteworthy is the heightened vulnerability of **essential goods and intermediate inputs**. Essential goods (like basic foodstuffs or critical medicines) often have inelastic demand – consumers need them regardless of moderate price changes – making it easier for sellers to pass on tariff costs. Intermediate goods – the raw materials, components, and semi-finished products used in the production of other goods (think steel for cars, chemicals for manufacturing, or microchips for electronics) – are especially impactful. Tariffs on these items don't just raise the price of one product; they cascade through supply chains, increasing production costs for numerous downstream industries. This creates a multiplier effect, potentially leading to broader and more stubborn inflation than tariffs on final consumer goods might.

This leads us to a fundamental **economic trade-off**. On one hand, tariffs can offer appealing **short-term gains**. They provide an immediate stream of revenue for the government's coffers and can act as a shield for domestic industries, giving them breathing room from intense foreign competition, which might spur local investment and job creation in those specific sectors. However, this protection comes

at a wider cost that often manifests more slowly but significantly. Over the **medium term**, the cumulative effect of these tariffs tends to push up the overall Consumer Price Index (CPI). This erosion of purchasing power impacts households across the income spectrum and can dampen overall consumer demand, potentially acting as a drag on broader economic growth. The initial benefits must be carefully weighed against these pervasive inflationary consequences.

Strategic Recommendations Flowing from These Insights:

Understanding these dynamics allows us to formulate more nuanced and potentially more effective policy recommendations:

1. **Strategic Forbearance on Tariffs for Critical Inputs:** Recognizing the disproportionate inflationary potential and systemic importance, we strongly advocate for extreme caution – ideally avoidance – when considering tariff hikes on goods fundamental to national functioning. Imposing tariffs on **pharmaceuticals**, for instance, directly impacts public health affordability and access. Levying duties on **semiconductors** hinders progress not just in the tech sector but across a vast array of industries (automotive, consumer electronics, defense, industrial automation) reliant on these components. Similarly, tariffs on **agricultural machinery** can increase farming costs, eventually translating into higher food prices for consumers and potentially impacting agricultural competitiveness. Raising costs in these areas risks creating significant negative externalities that outweigh potential protectionist benefits.
2. **Implementing Intelligent, Adaptive Tariff Regimes:** If tariffs are nonetheless deemed strategically necessary for specific goals, they should be designed with built-in mechanisms for evaluation and adaptation. We recommend **time-bound tariffs** with clearly defined "**sunset clauses**" – automatic expiration dates unless a conscious, evidence-based decision is made to renew them. This counters institutional inertia and prevents temporary measures from becoming quasi-permanent protection that breeds inefficiency. Crucially, these should be paired with dynamic **monitoring dashboards**. These aren't just static

reports; they should be live systems tracking key metrics like specific price indices for tariffed goods and related products, import/export volumes, domestic production levels within the protected sector, employment figures, and even measures of innovation or quality improvement. Such dashboards provide policymakers with real-time feedback to assess whether the tariff is achieving its intended goals and at what cost, allowing for data-driven adjustments, recalibration, or timely removal.

3. **Shifting Focus from Protectionism to Proactive Support:** Rather than relying primarily on the blunt instrument of tariffs (a form of protectionism that essentially taxes consumers to shield producers), we recommend prioritizing **positive, targeted measures to foster domestic capabilities**. This could involve well-designed **subsidies** aimed at reducing specific costs for domestic firms (e.g., energy, R&D), providing investment tax credits, funding skills development programs, or directly supporting innovation hubs. Unlike tariffs, which inherently raise prices for users of the goods, these support mechanisms can bolster local industry competitiveness without necessarily imposing an immediate inflationary burden on the entire economy. This approach aims to build capacity from the ground up, rather than simply walling off competition.
4. **Mandating Macroeconomic Policy Coherence:** Trade policy decisions, particularly concerning tariffs with inflationary potential, cannot be made in isolation from the nation's broader macroeconomic management strategy. It is imperative to ensure strong **coordination and alignment between trade policy formulation and the Reserve Bank of India's (RBI) mandate for inflation targeting**. For example, if the RBI is actively implementing measures to cool down inflation (like raising interest rates to reduce demand), imposing new tariffs that push up costs would directly counteract those efforts, making the central bank's job harder and potentially leading to policy incoherence. Regular dialogue and shared understanding between fiscal/trade authorities and the monetary authority are essential for ensuring policies work in concert, not at cross-purposes, towards the goal of sustainable, low-inflation growth.

4.7 Limitations

While we believe our analysis provides valuable insights, it's crucial to be transparent about its limitations, which frame the context within which our findings and recommendations should be understood:

- **Exclusion of Currency Dynamics:** Our current model does not explicitly factor in the significant influence of **international currency fluctuations**. Exchange rate movements are a major independent driver of import costs. A depreciation of the domestic currency, for example, would make imports more expensive across the board, potentially amplifying the inflationary impact of any existing tariffs, while an appreciation could dampen it. Ignoring this variable means our analysis isolates the tariff effect but misses a key interacting factor present in the real world.
- **Ignoring Illicit Trade Effects:** The analysis also does not account for the presence or potential increase in **smuggling and other forms of illicit trade** that can arise, particularly when high tariffs are imposed on easily transportable goods. Significant levels of smuggling can distort official trade data, making it harder to accurately assess the true impact of tariffs. It can also mean that the actual market supply and price are influenced by factors entirely outside the formal tariff regime, potentially leading to different outcomes than predicted by models based solely on legal trade flows. Furthermore, it undermines legitimate businesses and reduces potential government revenue.

These limitations underscore the need for continuous validation with real-world data as it becomes available and suggest areas for future, even more comprehensive research incorporating these additional complex variables.

5. Conclusion

Our study dives into the intricate world of tariffs, confirming that while they can indeed be wielded as tools for strategic economic purposes – perhaps to shield nascent industries, respond to global trade dynamics, or even bolster government revenue – their use is far from straightforward. We cannot ignore the very real shadow they cast in the form of inflationary pressure. The tendency for tariffs to push up domestic prices is a significant factor that policymakers must grapple with honestly.

This brings us to a crucial point: a blunt, across-the-board approach to tariffs simply won't cut it. Because different sectors of the economy react so differently, with essential goods and key industrial components being particularly sensitive, a much more **fine-tuned and discerning strategy** is required. We need to be thoughtful about *where* tariffs are applied, *when*, and for *how long*.

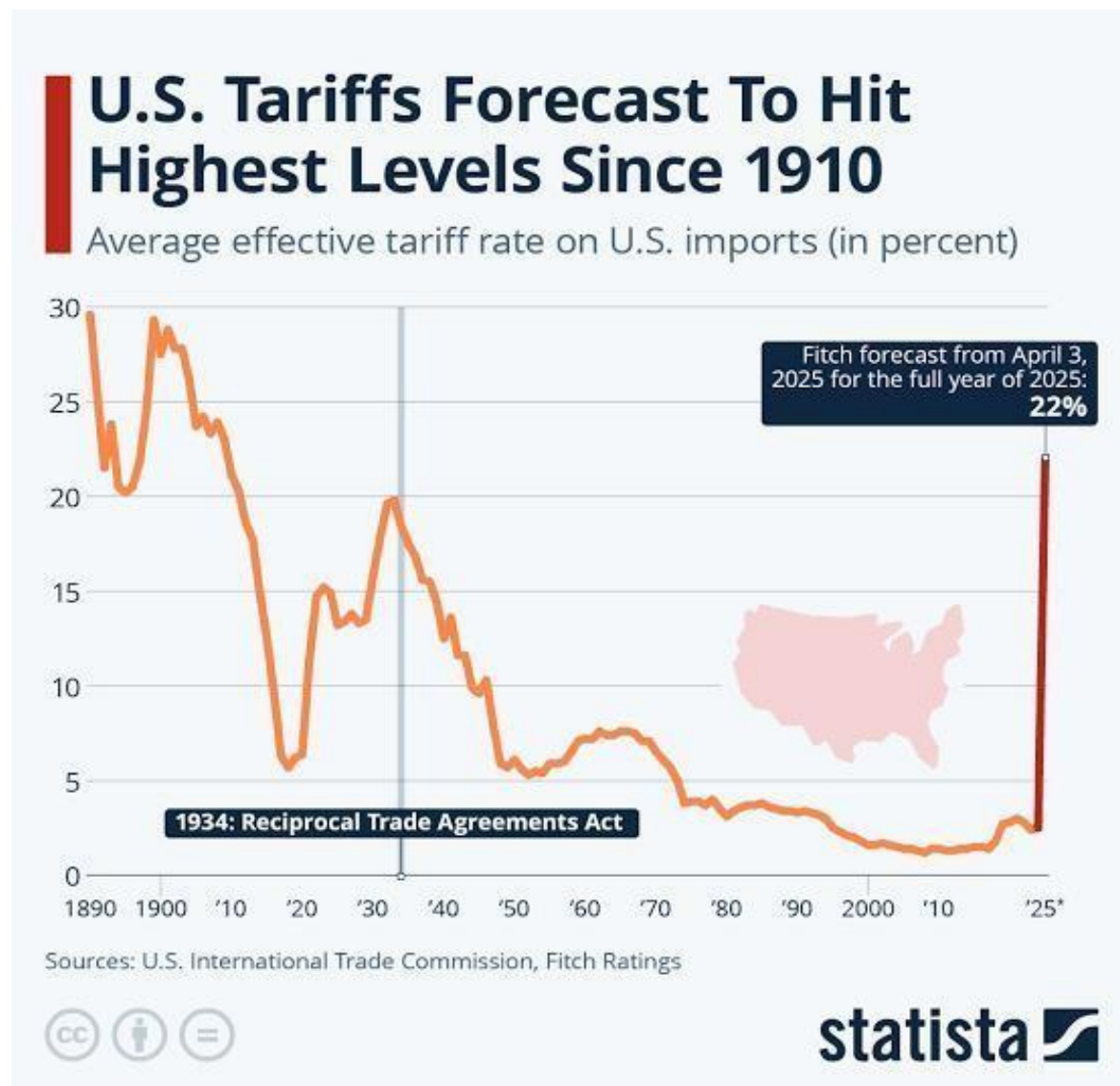
Moreover, this sensitive handling of trade policy cannot happen in isolation. It's absolutely essential that decisions on tariffs are made hand-in-glove with the nation's broader economic management, specifically aligning with the monetary policies aimed at keeping inflation in check (like those managed by the RBI) and the government's overall fiscal plans. Think of it like conducting an orchestra – each section needs to play in harmony for the performance to succeed. Otherwise, conflicting policies can end up undermining each other, making it harder to achieve stable, sustainable growth.

The ultimate goal, then, is a careful balancing act: leveraging trade policy to support national economic objectives and foster growth, without simultaneously pouring fuel on the fire of inflation that erodes purchasing power and harms consumers and businesses alike.

Interestingly, this analytical perspective finds strong resonance in the feedback received directly from stakeholders – the businesses and individuals who navigate these policies daily. A recurring theme in these conversations was a clear preference for strategies that build **genuine, long-term competitiveness** – through innovation,

efficiency, and skill development – rather than relying too heavily on **short-term protection** offered by tariffs, which often comes with hidden costs and can sometimes delay necessary adaptation.

In essence, while tariffs remain a part of the economic policy toolkit, their effective and responsible use demands nuance, careful integration with other policies, constant monitoring, and a clear-eyed view of the trade-offs involved, always keeping the long-term economic health and resilience of the nation as the guiding principle.



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7. Annexure

- Survey database
- Survey Questionnaire

7.2 Survey Design and Questionnaire

As part of this project, I designed and conducted a detailed survey to investigate how tariffs affect inflation from the perspective of ordinary citizens and small businesses. Each question in the survey was carefully curated to extract meaningful insights, and the choices offered were structured to allow ease of response while ensuring relevant variation. Here is a breakdown of each question, the response options I provided, and the reasoning behind their inclusion:

1. What is your age group?

Options:

Under 18

18–25

26–35

36–45

46–60

Over 60

Rationale:

Age plays a critical role in how individuals perceive inflation and respond to rising costs. By categorizing respondents by age, I aimed to identify generational trends—for example, whether younger individuals are more price-sensitive due to lower income levels or student status.

2. What best describes your occupation?

Options:

Student

Working Professional

Business Owner

Importer/Exporter

Homemaker

Retired

Other

Rationale:

Understanding a respondent's occupation helps link their economic exposure to tariffs. For instance, an importer might experience direct cost impacts, while a student's exposure would be indirect. It allowed me to contextualize responses later in the analysis.

3. Have you noticed a rise in prices that you think is due to import tariffs?

Options:

Yes

No

Not sure

Rationale:

This question was aimed at gauging public awareness and perception. Even if data shows price increases, I wanted to know whether individuals actually associate these hikes with tariff policy, which is key in understanding behavioral responses.

4. Which product categories have you noticed being affected the most? (Select all that apply)

Options:

Electronics

Automobiles

Household appliances

Food items

Clothing

Medicines

Other

Rationale:

Tariffs typically impact import-heavy sectors. This question helped identify which goods people feel are becoming more expensive, and validated sectoral inflation pressure seen in market data.

5. Do you turn to local alternatives when imported products get expensive?

Options:

Always

Often

Sometimes

Rarely

Never

Rationale:

One of the intended outcomes of tariffs is to boost domestic consumption. I wanted to see whether that's working—are people shifting to local goods or simply enduring the price hike?

6. As a business owner or manager, have you had to change your pricing strategy due to tariffs?

Options:

Yes, I increased prices

Yes, I reduced costs elsewhere

No change made

Not applicable

Rationale:

For respondents involved in business, I aimed to track whether rising costs were being passed on to consumers or absorbed internally, thereby tracing one of the key paths through which tariffs fuel inflation.

7. What do you expect to happen to inflation in the next 6–12 months?

Options:

Prices will increase sharply

Prices will increase moderately

Prices will remain stable

Prices will decrease

Not sure

Rationale:

Inflation expectations often shape actual economic behavior. This question helped gauge how respondents anticipate future trends, which can influence spending, saving, and investment decisions.

8. Do you think the government should reduce tariffs to control inflation?

Options:

Strongly agree

Agree

Neutral

Disagree

Strongly disagree

Rationale:

I included this to get a sense of public opinion on trade policy. It offered insights into whether people see tariffs as a necessary protectionist tool or a driver of avoidable inflation.

9. Roughly how much have your monthly expenses gone up due to rising prices?

Options:

Less than 5%

5–10%

11–20%

21–30%

More than 30%

Rationale:

This question brought quantitative value to the survey. Asking for an estimated percentage increase in expenses helped me model the

inflationary impact at the household level and supported visual analysis.

10. If you run or work in a business, how has revenue been affected by cost increases tied to tariffs?

Options:

Revenue has increased

Revenue is stable

Revenue has decreased

Not applicable

Rationale:

This question links rising input costs (due to tariffs) to business outcomes. I wanted to know if cost burdens were causing profit squeezes or operational issues that could have downstream inflationary effects.

11. How aware are you of recent changes in tariff policy?

Options:

Very aware

Somewhat aware

Slightly aware

Not at all aware

Rationale:

I asked this to gauge how informed people are. If awareness is low, price changes may be misattributed, or people may not respond behaviorally in the way policy intends.

12. How much trust do you place in the government's ability to manage inflation through tariffs?

Options:

High trust

Moderate trust

Low trust

No trust

Rationale:

Public trust determines the effectiveness of policy messaging. This question helped measure whether people feel confident in the government's ability to use tariffs as a regulatory tool.

13. Has your job or work situation been affected by tariff-related changes?

Options:

Yes, positively

Yes, negatively

No impact

Not sure

Rationale:

Tariffs can indirectly affect employment through changes in sectoral output and business performance. This question allowed me to investigate any observable labor market impacts in the sample group.

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