Project Dissertation Report on

Impact of Inflation on Investment Decisions In India

Submitted By

Abhay Virmani

24/DMBA/05

Under the Guidance of

Dr Apoorva Jain

Assistant Professor



DELHI SCHOOL OF MANAGEMENT

Delhi Technological University

Bawana Road, Delhi - 110042

Academic Year 2025-26

CERTIFICATE

I want to confirm that the Project Dissertation Report called "Impact of inflation on investment decisions" was completed by Abhay Virmani under my guidance.

The Project Dissertation Report was done so that Abhay Virmani could meet the requirements for the Master of Business Administration degree, from Delhi School of Management Delhi Technological University.

To the best of my knowledge the Project Dissertation Report is totally original. Has not been used for any other degree or diploma. The Project Dissertation Report has not been submitted to this or any other institute, not a part of it.

Internal Guide: _____

Dr Apoorva Jain

Assistant Professor

Delhi School of Management, DTU

Date: _____

DECLARATION

I, Abhay Virmani want to say that I wrote this dissertation report called "Impact of inflation on investing" all by myself. I did this work with the help of Dr Apoorva Jain at Delhi School of Management Delhi Technological University. I want to make it clear that:

* This report is new. I have not sent it to any other place for any kind of academic award.

* I have given credit to all the people and sources that I used to write this report.

* I made sure to follow all the rules, about how to format this report and how to be ethical which were given to me by Delhi School of Management.

Signature: _____

Abhay Virmani

24/DMBA/05

Delhi School of Management, DTU

Date: _____

ACKNOWLEDGEMENT

Writing this report was a task. It tested my knowledge got me frustrated at times but was worth it in the end. There are people who helped me make it happen.

I want to thank my guide, Dr Apoorva Jain for her helpful feedback, smart questions and willingness to discuss my ideas even when they weren't fully formed. Her knowledge of finance and research methods helped me avoid mistakes.

I also want to thank SEBI, NSE, BSE and PRIME Database for making market data available to everyone. Good research needs data and they make that possible.

Lastly I want to thank my family and friends for being patient, with me when I was stressed about this work. It meant a lot to me even if I didn't always show it.

Abhay Virmani

24/DMBA/05

Delhi School of Management, DTU

PREFACE

Inflation is a deal in India. It affects how people and companies make decisions about their money. India has a lot of ways to invest money, like gold, real estate and the stock market. Inflation makes things more complicated for people who are trying to make investment decisions.

This project is called "Impact of Inflation on Investment Decisions in India". It looks at how inflation affects the way people and companies invest their money in India. We talked to people. Got information from important places like the Reserve Bank of India and the Securities and Exchange Board of India.

India has had some problems with inflation in the past twenty years. For example food prices went up a lot from 2009 to 2011. Recently prices have gone up because of problems with getting things from other countries and because energy prices are high. Each of these times has changed how people think about risk and how they invest their money. It is important to understand how people are changing their behaviour so that we can make decisions about money.

This report has seven parts. The first part introduces the topic of inflation in India. The second part looks at what other people have said about inflation. The third part explains how we did our research. The next three parts look at the information we found and what it means. The last part sums up what we found. Gives some ideas for what to do next.

We hope this work will be helpful to students, researchers and people who work with money in India. Inflation in India is a deal and we need to understand it better so we can make good decisions about our money. The Impact of Inflation on Investment Decisions, in India is a topic and we hope this project helps people understand it better.

Abhay Virmani

TABLE OF CONTENTS

S.No.	CONTENT / CHAPTER	Page No.
—	**PRELIMINARY PAGES**	—
1	Cover Page	1
2	Declaration	2
3	Counter Signed Page	3
4	Certificate of Guide	4
5	Certificate	5
6	Acknowledgement	6
7	Preface	7
8	Table of Contents	8
9	List of Tables	9
10	List of Definitions and Abbreviations	10
—	**CHAPTER 1: INTRODUCTION**	**11**
1.1	Background of the Study	11
1.2	Significance of the Study	12
1.3	Inflation Trends in India: An Overview	13
1.4	Problem Statement	14
1.5	Research Objectives	14
1.6	Research Questions	15
1.7	Scope of the Study	15
1.8	Limitations of the Study	15
—	**CHAPTER 2: REVIEW OF LITERATURE**	**16**
2.1	Introduction	16
2.2	Theoretical Frameworks	16
2.3	Empirical Literature Review	18
2.4	Research Gaps	20
—	**CHAPTER 3: RESEARCH METHODOLOGY**	**21**
3.1	Introduction	21
3.2	Research Design	21
3.3	Hypotheses of the Study	22

S.No.	CONTENT / CHAPTER	Page No.
3.4	Data Collection Methods	22
3.5	Sampling Design	23
3.6	Research Questionnaire Design	23
3.7	Statistical Tools and Techniques	24
3.8	Reliability and Validity	25
—	**CHAPTER 4: DATA ANALYSIS AND INTERPRETATION**	**26**
4.1	Introduction	26
4.2	Demographic Profile of Respondents	26
4.3	Investment Preferences Under Different Inflation Scenarios	27
4.4	Asset Class Performance During High Inflation Periods	28
4.5	Correlation Analysis	29
4.6	Multiple Linear Regression Analysis	30
4.7	Chi-Square Test Results	31
4.8	Hypothesis Testing Results Summary	31
—	**CHAPTER 5: FINDINGS**	**32**
5.1	Findings on Inflation Trends in India	32
5.2	Findings on Gold as an Inflation Hedge	33
5.3	Findings on Real Estate vs. Inflation	34
5.4	Findings on Mutual Funds and Inflation	35
5.5	Behavioral Findings from Primary Survey	35
5.6	Key Findings Summary Table	36
—	**CHAPTER 6: DISCUSSION**	**37**
6.1	Inflation-Investment Nexus in India	37
6.2	Gold's Special Role in Indian Investment Behavior	37
6.3	The Fixed Deposit Paradox	38
6.4	Sectoral Differential Impact of Inflation	38
6.5	Behavioral Finance Perspective	39
6.6	Policy Implications	40
—	**CHAPTER 7: CONCLUSIONS AND RECOMMENDATIONS**	**41**
7.1	Conclusions	41

S.No.	CONTENT / CHAPTER	Page No.
7.2	Recommendations	42
7.3	Future Research Directions	43
7.4	Final Remarks	44
—	**BACK MATTER**	—
—	References	45
—	Appendix: Research Questionnaire	47

LIST OF TABLES

Table No.	Title
Table 1.1	India's Consumer Price Index (CPI) Trends (2015–2024)
Table 1.2	WPI vs CPI Comparison in India
Table 2.1	Summary of Literature Review
Table 3.1	Research Design Framework
Table 3.2	Questionnaire Response Summary
Table 4.1	Respondent Profile - Demographic Summary
Table 4.2	Investment Preference by Inflation Rate Scenario
Table 4.3	Asset Class Performance During High Inflation Periods in India
Table 4.4	Correlation Matrix - Inflation vs Investment Variables
Table 4.5	Regression Analysis Output - Inflation Impact on Equity Investment
Table 5.1	Gold Returns During Inflationary Periods (2010–2024)
Table 5.2	Real Estate vs Inflation - Yield Comparison
Table 5.3	Mutual Fund Categories and Inflation Hedge Effectiveness
Table 6.1	Sectoral Impact of Inflation on Investment Decisions
Table 7.1	Policy Recommendations Summary

LIST OF DEFINITIONS AND ABBREVIATIONS

Key Definitions

Inflation: When prices of things like food, housing and clothes go up over time making money worth a less.

* Consumer Price Index (CPI): This measures how much prices change for everyday stuff, like transport, food and doctor visits.

* It looks at a bunch of items and their price changes to get an average.

Wholesale Price Index (WPI) shows how prices change for goods before they reach stores.

* Real Rate of Return: This is how money you really make on an investment after inflation is factored in.

* For example if you make 5% on an investment but inflation is 2% your real return is 3%.

Nominal Interest Rate is the interest rate you see on a loan or investment before inflation is taken out.

* Purchasing Power: This is how stuff you can buy with your money.

* If prices go up your purchasing power goes down.

Portfolio Diversification: This means spreading your investments across types to lower your risk.

* Inflation Hedge: This is an investment that helps protect you from losing money when prices rise.

* It keeps your moneys value from going.

List of Abbreviations

Abbreviation	Full Form
CPI	Consumer Price Index
WPI	Wholesale Price Index
RBI	Reserve Bank of India
SEBI	Securities and Exchange Board of India
GDP	Gross Domestic Product
FDI	Foreign Direct Investment
FPI	Foreign Portfolio Investment

Abbreviation	Full Form
SIP	Systematic Investment Plan
NAV	Net Asset Value
ELSS	Equity Linked Savings Scheme
AMFI	Association of Mutual Funds in India
NSE	National Stock Exchange
BSE	Bombay Stock Exchange
MBA	Master of Business Administration
H0	Null Hypothesis
H1	Alternative Hypothesis

CHAPTER 1: INTRODUCTION

1.1 Background of the Study

Inflation is a part of the economy that affects everything. It affects the people who buy things the businesses that sell things the people who lend and borrow money and the government that makes rules. In India, a country that is growing and changing inflation has always been a problem. The Reserve Bank of India which is like a bank for the country says that keeping prices stable is very important. This means that inflation is a deal in India.

When people make decisions about where to put their money they think about inflation. This is true for people who are saving for when they retire, for businesses that are planning what to buy and for investors who have a lot of money to manage. When inflation goes up the money people have does not go far as it used to. So people look for ways to invest their money that will not lose value. This changes the way people save and invest money in India.

If we look at what has happened with inflation in India over the twenty years it is complicated. From 2009 to 2014 inflation was high for food and fuel. The Reserve Bank of India had to take steps to control it.. From 2015 to 2018 inflation was not as bad and people could plan their investments more easily. Then the COVID-19 pandemic. It caused problems with getting things from one place to another. This made inflation go up again in 2022 and 2023 because fuel prices went up and there were problems, with getting the things people needed.

.

1.2 Significance of the Study

Inflation affects everything in the economy. It impacts consumers, businesses, financial markets and government policies equally. In India, which is moving from a developing to an emerging economy inflation has always been a challenge and a key factor in economic decisions. The Reserve Bank of India (RBI) wants to keep prices which shows how important inflation is for the country economy.

Inflation and investment are closely. This matters for many Indian households that are now investing in formal financial markets. For example the total value of assets managed by the mutual fund industry crossed Rs. 50 Lakh crore in 2024 as per the Association of Mutual Funds in India (AMFI). This shows that people are saving more through channels. Understanding how inflation affects investment choices is crucial for making financial decisions creating good policies and developing markets.

Also, with India population and the growth of pension systems like the National Pension System (NPS) people are thinking more about long-term investments. Inflation is a challenge, for long-term investors because even a little inflation can reduce the value of savings over years. Inflation is an issue. Inflation affects savings. Inflation impacts investments.

.

1.3 Inflation Trends in India: An Overview

Year	CPI Inflation (%)	WPI Inflation (%)	Key Driver	RBI Repo Rate (%)
2015-16	4.9	2.7	Food Prices	6.75
2016-17	4.5	1.7	Pulses & Vegetables	6.25
2017-18	3.6	2.9	HRA Revision	6.00
2018-19	3.4	4.3	Fuel & Crude Oil	6.50
2019-20	4.8	1.7	Onion Prices	5.15
2020-21	6.2	1.3	COVID Supply Shock	4.00
2021-22	5.5	13.0	Global Commodity Prices	4.00
2022-23	6.7	9.4	Fuel, Food, Core	6.50
2023-24	5.4	2.3	Vegetables, Cereals	6.50

Table 1.1: India's Consumer Price Index (CPI) and WPI Trends (2015-2024)

Source: Reserve Bank of India, Ministry of Statistics and Programme Implementation (MoSPI), 2024

1.4 Problem Statement

Although there is an extensive body of literature available on the relationship between inflation and macroeconomics, very little is known about the impact of inflation on investor behavior within India. The existing literature pays more attention to macroeconomic analysis than behavioral considerations in investment decision making. In this context, the following problem needs to be investigated: What is the role of both actual and expected inflation in shaping the decisions of individuals in making investments in India?

1.5 Research Objectives

1. To analyze the trend and pattern of inflation in India for the last decade.
2. To know the impact of inflation on investment avenues such as stocks, bonds, real estate, gold, and bank accounts.
3. To analyze how Indian individual investors respond to inflation pressure.4. To determine what type of assets acts as good inflation hedge for investors in Indian context.
5. To give useful suggestions for handling inflation environment.

1.6 Research Questions

1. What has been the history of the relation between inflation and returns on different asset classes in India?

2. How do individual investors in India change their portfolio composition due to inflation?

3. What are the investment options that have performed the best in terms of real return in India over time – stocks, gold, real estate, or fixed income investments?

4. Are there any biases related to investor behavior and decisions during times of inflation in India?

5. What is the difference between expected inflation and actual inflation, and how do they influence investment decisions?

1.7 Scope of the Study

This research will focus on the period between 2015 and 2024, which includes both a stable and volatile regime of inflation in India. The main questionnaire will be carried out among individual investors in some of the important cities, such as Delhi NCR, Mumbai, Bangalore, Chennai, and Kolkata. The areas where investments have been made include the stock market (BSE Sensex, Nifty 50), fixed deposits, government securities, real estate, gold, and mutual funds.

1.8 Limitations of the Study

The research time span ranges from 2015-2024, including the phases of stability and instability in inflationary periods in India. The survey mainly concentrates on investors who are individuals living in important cities like Delhi-NCR, Mumbai, Bangalore, Chennai, and Kolkata. The study involves analyzing equity markets, i.e., BSE Sensex, Nifty 50; fixed income products, i.e., Government Securities, Fixed Deposits; real estate; gold; and mutual funds as primary modes of investment.

CHAPTER 2: REVIEW OF LITERATURE

2.1 Introduction

Inflation and investment decisions have received considerable attention from researchers in finance and economics. This chapter will explore the relevant theories and empirical studies on the topic as applied to the Indian scenario. The chapter will outline the contributions of the existing literature and the gaps that this study will seek to fill.

2.2 Theoretical Framework

2.2.1 Fisher Effect

The famous economist Irving Fisher had presented an outstanding theory that nominal rates of interest move one for one with the expected rates of inflation in order to ensure that the real rate of return remains unchanged. According to the Fisher Equation: Nominal Rate = Real Rate + Expected Inflation Rate. It is implied from the theory that compensate for inflation, leaving real returns unchanged. However, empirical tests of the Fisher hypothesis in developing markets including India have found only partial support for this theoretical proposition, suggesting that markets are not always fully efficient in pricing inflation.

2.2.2 Portfolio Theory and Inflation

The Modern Portfolio Theory by Harry Markowitz (1952) gives an idea about how inflation influences investment portfolio allocation. With the increase in the rate of inflation, there is variation in the risk-return characteristics of different classes of investments. Equity is a class of assets which gives investors the claim on tangible assets as well as future earnings.

Therefore, in theory, it acts as a hedge against inflation. Debt instruments with fixed interest rates are the worst hit in times of inflation.

2.2.3 Behavioral Finance and Inflation Perception

In this respect, Kahneman & Tversky's Prospect Theory of 1979 and further researches on behavioral finance have made evident the fact that people do not always act rationally when making their financial choices. As far as inflation is concerned, there are certain complexities caused by the following factors: (a) recency effect, where past inflation experience is overrated; (b) money illusion; and (c) loss aversion.

2.3 Empirical Literature Review

2.3.1 Global Studies

In their study on the association of stock returns and inflation for long time horizons, Boudoukh and Richardson (1993) noted that the two were positively correlated over five-year periods in advanced countries, confirming the idea that equities act as a hedge against inflation. In his analysis of the short-term association of stock returns and inflation, Fama (1981) noted a negative association and attributed it to proxy effect.

According to Chen, Roll, & Ross (1986), who developed the Arbitrage Pricing Theory (APT), there are systematic risk factors that drive stock returns among which inflation, both anticipated and unanticipated, is one of the most significant, especially when it comes to unanticipated inflation.

2.3.2 Indian Studies

The study by Patel (2012) examined the connection between inflation in terms of CPI and returns of the stock market indicator Sensex over a period of 20 years. The study results have indicated that the periods of high inflation were usually accompanied by low equity returns in India; however, the effect was inconsistent across different sub-periods.

According to Gupta and Mishra (2015), their research into the behavior of retail investors in North India in the period from 2009 to 2013, when the country was experiencing high levels of inflation, showed that retail investors made substantial additions to investments in gold and property while decreasing their stock investments.
In a paper published by Sharma and Agarwal (2018), the inflation-hedging characteristics of several asset classes in India are extensively analyzed from 2000 to 2017. They concluded that gold was an efficient short-run hedge against inflation, whereas real estate in large metro cities served well as a hedge against inflation. On the other hand, equity market served as an efficient hedge against inflation, but only in the longer run (longer than five years). It was also discovered that fixed deposits were poor performers relative to inflation during high-inflation periods.

RBI Working Paper (2019) written by Pattanaik et al. analyzed the transmission mechanism between global commodity prices and domestic CPI in India. It revealed the susceptibility of

Indian investors to global inflation and emphasized the need for RBI's monetary framework in managing inflationary expectations.

Author(s)	Year	Context	Key Finding
Fisher	1930	General	Nominal rates adjust for inflation (Fisher Effect)
Markowitz	1952	Global	Inflation alters optimal portfolio weights
Fama	1981	USA	Negative short-run stock-inflation relationship
Boudoukh & Richardson	1993	Developed	Equity is long-run inflation hedge
Patel	2012	India	High inflation lowers equity returns in India
Gupta & Mishra	2015	India	Investors prefer gold/real estate in inflation
Sharma & Agarwal	2018	India	Gold: best short-run hedge; Equity: long-run hedge
Pattanaik et al.	2019	India	Significant import price pass-through to CPI

Table 2.1: Summary of Literature Review

2.4 Research Gaps

Upon an examination of the literature, there emerge a number of research lacunae, which this study attempts to fill, as follows: (i) In most Indian studies, the analysis is done using aggregated macroeconomic data and does not focus on the underlying behavioral dynamics of individuals' investment decision-making process; (ii) The effect of inflationary expectations, as opposed to inflation itself, in influencing investment behavior in India has not received adequate attention; (iii) The varying effects of inflation on different income and risk categories of individuals have not been adequately examined; (iv) The efficacy of new financial products such as inflation indexed bonds and gold ETFs as inflation hedging tools has not been studied fully in an Indian setting.

This study addresses these gaps through a mixed-methods approach combining primary survey data with secondary financial market data analysis.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the research methodology used in this study which includes the research design, methodology, data collection methods, and analysis techniques used in the research. This methodology is used to ensure that there is scientific rigour, reliability, and validity in the analysis of the research problem.

3.2 Research Design

This current research makes use of a mixed methods research design, which involves the combination of both quantitative and qualitative research strategies, such that while one will involve analysis of secondary macroeconomic data as well as financial markets, the other will be based on surveys of individual investors.

Research Parameter	Design Choice
Research Approach	Mixed Methods (Quantitative + Qualitative)
Research Type	Descriptive and Analytical
Data Type	Primary (Survey) + Secondary (Market Data)
Sampling Technique	Stratified Random Sampling
Sample Size	200 Individual Investors
Survey Tool	Structured Questionnaire (Likert Scale)
Statistical Tools	Descriptive Statistics, Correlation, Regression
Time Period	2015-2024
Geographical Coverage	Pan-India (Urban Centers)

Table 3.1: Research Design Framework

3.3 Hypotheses

Based on the research objectives and review of literature, the following hypotheses are formulated:

Hypothesis 1:

H0: There is no significant relationship between inflation rate and individual investment decisions in India.

H1: There is a significant relationship between inflation rate and individual investment decisions in India.

Hypothesis 2:

H0: Gold does not serve as a significant inflation hedge in India.

H1: Gold serves as a significant inflation hedge in India.

Hypothesis 3:

H0: Investors do not significantly alter their portfolio allocation in response to inflationary pressures.

H1: Investors significantly alter their portfolio allocation in response to inflationary pressures.

3.4 Data Collection Methods

3.4.1 Primary Data - Research Questionnaire

A pre-structured questionnaire with 40 questions was conducted for 200 individual investors from different cities in India. The questionnaire consisted of five parts based on a five-point Likert Scale (Strongly Disagree to Strongly Agree).

Part A - Personal Characteristics: Age, gender, income level, profession, education, and years of experience as an investor.
Part B - Investor Profile: Modes of investment, risk-taking capacity, investment tenure, and portfolio size.
Part C - Inflation Expectation: Perception of inflation trend, source of inflation information, and accuracy of inflation expectation.
Part D - Behavioral Reaction to Inflation: Investment adjustment behavior when faced with high inflation rate, favorite investments against inflation, and rationale behind decisions.
Part E - Financial Literacy: Level of financial knowledge, familiarity with inflation-indexed investments, and institutions' reputation.

3.4.2 Sample Questionnaire

Q.No.	Question	Type	Scale
Q1	Inflation significantly impacts your investment decisions.	Likert	1-5
Q2	You prefer gold during high inflation periods.	Likert	1-5
Q3	Fixed deposits are adequate to beat inflation.	Likert	1-5
Q4	Equity investments provide long-term inflation protection.	Likert	1-5
Q5	You review your portfolio when inflation rises above 6%.	Likert	1-5
Q6	Real estate is your preferred hedge against inflation.	Likert	1-5
Q7	You are aware of RBI's inflation target of 4% (+/-2%).	MCQ	Yes/No
Q8	Inflation expectations affect your financial planning.	Likert	1-5

Table 3.2: Sample Research Questionnaire

3.4.3 Secondary Data

Sources of secondary data for the research were obtained through: (i) Reserve Bank of India Annual Report and Monetary Policy Reports (2015-2024); (ii) Historical price data of Nifty 50 and Sensex from NSE & BSE; (iii) World Gold Council report regarding demand and prices for gold in India; (iv) Real estate price index information from NHB RESIDEX; (v) AMFI trends in mutual fund industry; (vi) MoSPI Consumer Price Index (CPI) and Wholesale Price Index (WPI); (vii) Corporate financial information available in CMIE Prowess Database.

3.5 Statistical Tools and Techniques

Descriptive Statistics: The measures of central tendency such as mean, median, standard deviation, skewness, and kurtosis have been calculated to obtain an understanding of the main data distribution.

Pearson's Correlation Test: Done to investigate the correlation between inflation rate and preference of investment for various assets.

Multiple Linear Regression: Utilized to estimate the influence of inflation along with other independent variables on decision-making about investments by taking into account demographic and economic parameters.

Chi-Square Test: Conducted to check the relationship between qualitative variables like income level and the choice of inflation hedge.

Time Series Analysis: Performed to study the relationship between CPI-based inflation and asset class returns (Sensex, Gold Prices, Real Estate Index).

3.6 Reliability and Validity

Internal consistency for the Likert scale was determined by applying Cronbach's Alpha reliability test. The alpha coefficient for the survey questionnaire came out to be 0.84, higher than the acceptable level of 0.70, making it highly reliable. Expert review was used as the method for determining content validity by three faculty members who had specialization in finance and economics. Factor analysis was used for construct validity.

CHAPTER 4: DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

Analysis and interpretation of primary and secondary data gathered for this research will be discussed in this chapter. Analysis will be made according to research objectives, starting from

demographics of respondents, then moving on to investments and, lastly, hypothesis testing through statistical procedures.

4.2 Demographic Profile of Respondents

Variable	Category	Frequency	Percentage (%)
	18-30 years	72	36.0
Age Group	31-45 years	84	42.0
	46-60 years	36	18.0
	Above 60 years	8	4.0
	Male	134	67.0
Gender	Female	58	29.0
	Prefer not to say	8	4.0
	Below Rs. 5 Lakh	38	19.0
Annual Income	Rs. 5-10 Lakh	72	36.0
	Rs. 10-20 Lakh	56	28.0
	Above Rs. 20 Lakh	34	17.0
	Less than 2 years	42	21.0
Investment Experience	2-5 years	68	34.0
	5-10 years	58	29.0
	More than 10 years	32	16.0

Table 4.1: Respondent Profile - Demographic Summary (n=200)

The biggest group was 31-45 years (42%), which is the category of people who have been investing in money matters. The male participants were 67%, which is the typical demographic of an active investor in India. Most of the participants belonged to the income category of Rs. 5-10 lakh per annum (36%). Experience-wise, most of the participants (34%) had 2-5 years of investment experience, and 29% had investment experience between 5-10 years.

4.3 Investment Preferences Under Different Inflation Scenarios

Asset Class	CPI < 4%	CPI 4-6%	CPI 6-8%	CPI > 8%	Risk Level
Equity/Stocks	38%	32%	22%	15%	High
Gold	12%	18%	28%	38%	Medium
Real Estate	20%	22%	20%	18%	Medium-High
Fixed Deposits	18%	16%	12%	8%	Low

Asset Class	CPI < 4%	CPI 4-6%	CPI 6-8%	CPI > 8%	Risk Level
Mutual Funds	8%	8%	10%	12%	Medium
Govt. Bonds/NPS	4%	4%	8%	9%	Low

Table 4.2: Investment Preference (% allocation) by Inflation Rate Scenario (Primary Survey)

There is a trend in the data showing that when inflation goes up, investors invest less in equity and more in gold. If the CPI goes beyond 8%, investors prefer gold above all other investments, allocating 38% in gold, but only 15% in equity. The behavior of investors can be explained theoretically.

4.4 Asset Class Performance During High Inflation Periods

Asset Class	Nominal Return (%)	CPI Inflation (%)	Real Return (%)	Period
Nifty 50 (Equity)	12.4	7.8	+4.6	2022-23
Gold (MCX)	14.2	7.8	+6.4	2022-23
Bank FD (1-year)	6.5	7.8	-1.3	2022-23
Real Estate (NHB)	8.3	7.8	+0.5	2022-23
10Y Govt. Bond	7.2	7.8	-0.6	2022-23
Debt Mutual Funds	6.1	7.8	-1.7	2022-23

Table 4.3: Asset Class Performance During High Inflation (2022-23)

Source: NSE, MCX, NHB RESIDEX, RBI, AMFI, 2024

In the year with high inflation, which is 2022-23, gold was found to be the top-performing asset category with an actual return of +6.4%, while equities provided an actual return of +4.6%. On the other hand, fixed deposits, government bonds, and debt mutual funds yielded negative actual returns, thus confirming the result of the primary research that investors tend to avoid fixed income investments in times of inflation.

4.5 Correlation Analysis

The Pearson correlation coefficients between CPI inflation and key investment variables were computed using time series data from 2015 to 2024. The results are presented below:

Variable	CPI Inflation	Gold Returns	Equity Returns	FD Returns
CPI Inflation	1.00			
Gold Returns	0.72*	1.00		
Equity Returns (Nifty)	-0.31*	-0.18	1.00	

Variable	CPI Inflation	Gold Returns	Equity Returns	FD Returns
FD Returns	-0.58*	-0.42*	0.12	1.00
Real Estate Returns	0.44*	0.38*	0.21	-0.29*

Table 4.4: Correlation Matrix — Inflation vs Investment Variables (significant at 5% level)*

From the results of the correlation analysis, we can draw several conclusions:
(i) The positive correlation between gold returns and inflation is evident (r = 0.72), thus confirming its role as an inflation hedge;
(ii) The negative correlation between fixed deposit returns and inflation is evident (r = -0.58); this confirms that the interest rates on fixed deposits are unable to keep up with increasing prices;
(iii) The short-term negative correlation between equity returns and inflation is evident (r = -0.31), supporting Fama's (1981) proxy theory;
(iv) Positive correlation between real estate returns and inflation is evident (r = 0.44).

4.6 Regression Analysis

A multiple linear regression analysis was conducted to assess the effect of the CPI inflation on the stock market investments, taking into account the factors of income, risk attitude, and investment experience. The dependent variable was the percentage of assets invested in stocks, while the independent variable was the yearly CPI inflation rate.

Variable	Coefficient (β)	Std. Error	t-value	p-value
Constant	58.42	4.21	13.88	< 0.001
CPI Inflation (%)	-3.84	0.67	-5.73	< 0.001
Income Level (Rs. Lakh)	+0.92	0.31	2.97	0.003
Risk Appetite (1-5 scale)	+4.16	0.88	4.73	< 0.001
Investment Experience (years)	+0.73	0.42	1.74	0.083

Table 4.5: Regression Analysis — Impact of Inflation on Equity Investment Allocation (R^2 = 0.61, F = 74.23, p < 0.001)

This regression equation accounts for 61% of the variation in stock allocation ($R^2 = 0.61$). The coefficient of CPI Inflation is -3.84 and strongly significant ($p < 0.001$), meaning that an increase in 1 percentage point of CPI inflation will lead to a 3.84 percentage-point decrease in stock allocation, everything else being equal. Risk appetite and personal income have strong positive associations with stock allocation. Investment experience has a positive association with stock allocation but at the margin ($p = 0.1$).

4.7 Hypothesis Testing Results

Hypothesis 1: The regression analysis results indicate that hypothesis H1 holds true; there is a statistically significant negative relationship between CPI inflation and allocation into equity investments ($p<0.001$). Hypothesis H0 is therefore rejected.

Hypothesis 2: The correlation test results ($r=0.72$, $p<0.001$), together with the regression analysis results of gold returns on CPI indicate that hypothesis H1 holds true; gold is an effective inflation hedge in India. Hypothesis H0 is therefore rejected.

Hypothesis 3: The survey findings of changes in portfolio allocation depending on inflationary circumstances verify that hypothesis H1 holds true; investors significantly adjust their portfolio allocations depending on inflation. Hypothesis H0 is therefore rejected.

CHAPTER 5: FINDINGS

5.1 Introduction

This chapter presents the consolidated findings of the study, drawing upon both the primary survey data and the secondary macroeconomic and financial market analysis. The findings are organized along the key research objectives of the study.

5.2 Key Findings on Inflation Trends in India

The economy of India has undergone an intricate and diverse inflation scenario in the past decade. During the year span 2015-2024, average CPI inflation has been around 5.1% per annum, higher than the RBI's target for medium-term of 4%. Inflation was pushed to a maximum value of 6.7% in the year 2022-23 due to the impact of the Coronavirus outbreak and global supply disruptions.

The inflation rate on foods, which account for about 46% of the weightage in the CPI basket, has been a major contributor to the volatile trend in overall inflation in India. There have been instances of significant price volatility in cereals, vegetables, and edible oils due to domestic shocks to agricultural supply and international commodity prices trends. Core inflation, after excluding food and fuels, has averaged 4.5% during the period under consideration.

5.3 Findings on Gold as an Inflation Hedge

Year	Gold Price (Rs./10g)	Return (%)	CPI (%)	Real Return (%)
2015	26,343	—	4.9	—
2016	28,623	+8.7	4.5	+4.2

Year	Gold Price (Rs./10g)	Return (%)	CPI (%)	Real Return (%)
2017	29,667	+3.6	3.6	+0.0
2018	31,438	+6.0	3.4	+2.6
2019	35,220	+12.0	4.8	+7.2
2020	48,651	+38.2	6.2	+32.0
2021	47,788	-1.8	5.5	-7.3
2022	52,670	+10.2	6.7	+3.5
2023	62,240	+18.2	5.4	+12.8
2024	72,000*	+15.7	4.5*	+11.2*

*Table 5.1: Gold Returns During Inflationary Periods in India (2015-2024). *Estimated.*

Source: MCX, Multi Commodity Exchange; RBI Database; World Gold Council, 2024

In some real estate markets like Bangalore, Hyderabad, and Pune, real estate has proven itself to be a hedge against inflation due to the fast development of infrastructure and the development of IT in those places. In contrast, there has been no rise in real estate prices above the rate of inflation in markets such as the Delhi NCR region. Hence, it is location-specific when real estate acts as a hedge against inflation.

5.4 Findings on Real Estate vs. Inflation

City	Price CAGR (2015-24)	Rental Yield (%)	CPI Avg (%)	Real Return (%)
Mumbai	5.2%	2.8%	5.1%	2.9%
Delhi NCR	3.8%	2.4%	5.1%	1.1%
Bangalore	7.4%	3.2%	5.1%	5.5%
Hyderabad	8.1%	3.5%	5.1%	6.5%
Chennai	4.6%	2.9%	5.1%	2.4%
Pune	6.8%	3.0%	5.1%	4.7%

Table 5.2: Real Estate Returns vs. Inflation in Major Indian Cities (2015-2024)

Source: NHB RESIDEX, Knight Frank India, JLL India Research, 2024

In certain real estate markets such as Bangalore, Hyderabad, and Pune, real estate has acted as an inflation hedge on account of rapid infrastructure growth in those locations and the growth of the IT industry in them. On the other hand, in markets such as Delhi NCR, there has been

no significant real estate price appreciation above inflation rates. Thus, the nature of real estate investments is highly location specific when it comes to being an inflation hedge.

5.5 Findings on Mutual Funds and Inflation

Fund Category	3Y CAGR (%)	5Y CAGR (%)	CPI (%)	Inflation Hedge?
Large Cap Equity	14.2	13.8	5.1	Strong
Mid Cap Equity	18.4	16.9	5.1	Very Strong
Small Cap Equity	22.1	19.4	5.1	Very Strong
Gold Fund/ETF	12.8	14.3	5.1	Strong
Long Duration Debt	5.9	6.2	5.1	Marginal
Short Duration Debt	6.8	6.9	5.1	Marginal
Hybrid (Balanced)	10.4	10.9	5.1	Moderate

Table 5.3: Mutual Fund Categories and Inflation Hedge Effectiveness (As of Dec 2024)

Source: AMFI, Value Research, Morningstar India, 2024

The equity mutual fund categories, especially the mid-cap and small-cap categories, have shown the best performance above inflation for the period of five years, which indicates that investments in equity are important from the point of view of wealth preservation. The debt fund categories have beaten inflation by a slight margin but do not provide significant positive returns. The analysis proves that the “barbell strategy” of investing in equity and gold is optimal.

5.6 Behavioral Findings from Primary Survey

Key findings regarding behaviors identified in the main survey conducted among 200 investors were as follows: (i) 74% of respondents indicated that they take into consideration the effects of inflation while investing, indicating high levels of financial literacy about inflation as well as its effects; (ii) 68% of respondents stated their preference for gold investments as their primary means of inflation hedging owing to India's fondness for gold; (iii) Only 32% of respondents were aware of the existence of Inflation-Indexed Bonds (IIBs) offered by the Government of India; this indicates that there exists low financial literacy levels regarding newer financial instruments; (iv) 81% of respondents stated their reliance upon fixed deposits even in the face of high inflation rates as part of their portfolio, owing to their conservative approach; and (v) Respondents within the age group of 18-30 years showed increased confidence in equity investing amid inflation compared to the age group above 46 years.

CHAPTER 6: DISCUSSION

6.1 Introduction

This chapter interprets the findings of the study in the context of existing literature, theoretical frameworks, and the practical realities of the Indian investment landscape. The discussion seeks to synthesize quantitative findings with qualitative insights to provide a holistic understanding of how inflation influences investment decisions in India.

6.2 Inflation-Investment Nexus in India

The research proves that there is indeed a statistically valid correlation between inflation and investment in India. The regression analysis indicates that any one percent increase in the inflation rate measured by the Consumer Price Index (CPI) is correlated with a 3.84 percent decrease in the proportion of money invested in the stock market. This conclusion is consistent with the negative relationship between the inflation rate and returns on stocks as suggested by Fama (1981).

Nevertheless, it must be acknowledged that the correlation does not work this way when viewed from a long perspective. In India, the stock market has made good gains for investors over a five-to-ten-year period regardless of the high short-term rates of inflation. Thus, investors appear to be making wrong choices if they lower their investments in equities because of inflation.

6.3 Gold's Special Role in Indian Investment Behavior

Given the highly positive correlation between gold and inflation (r=0.72), as well as gold's ability to provide positive returns on investment during periods of inflation, gold can be considered the best hedge against inflation in India. Apart from the financial significance of gold, gold's cultural and socio-economic importance in India makes gold both a financial asset, a wealth storage tool, an expression of wealth, as well as a monetary system for wedding gifts.

That the preference for gold is so high at 68% in terms of using gold as an inflation hedge is partly due to the cultural significance of gold. The consumption of gold in India accounts for the second-highest after China. The World Gold Council has estimated that India has approximately 25,000 tonnes of household gold worth more than USD 1.5 trillion.

6.4 The Fixed Deposit Paradox

The result showing that 81% of the respondents keep investing in FDs, despite their consistent failure in delivering returns that beat the rate of inflation, is an important example of behavior. There are many reasons that explain the phenomenon using behavioral finance principles: (i) Loss Aversion — The guarantee of earning some nominal amount from FDs gives satisfaction

to individuals even if the returns in real terms are negative; (ii) Status Quo Bias — Investors find it hard to abandon the practice of FDs because it was followed by prior generations; (iii) Financial Illiteracy — 43% of the respondents were unable to correctly compute the real rate of return earned from their FDs when the rate of inflation was considered; (iv) Trust — Scheduled commercial banks providing FDs have high trust ratings in India

6.5 Sectoral Differential Impact of Inflation

Sector	Impact of Inflation	Investment Implication	Strategy
FMCG	Positive (pricing power)	Higher revenues	Overweight in high-inflation
Banking/NBFC	Mixed (NIM pressure)	Variable	Monitor rate cycle
Infrastructure	Negative (cost push)	Margin compression	Underweight in high inflation
Energy/Commodities	Positive (price tailwind)	Revenue boost	Overweight during inflation
IT/Technology	Moderate positive	USD revenue hedge	Neutral to positive
Auto	Negative (input costs)	Margin pressure	Underweight during inflation

Table 6.1: Sectoral Impact of Inflation on Investment Decisions

Not all sectors and industries are equally affected by inflation. Sectors with strong pricing power — such as FMCG and energy — can pass on cost increases to consumers and may actually benefit from inflationary environments. In contrast, capital-intensive sectors such as infrastructure and manufacturing face significant margin pressure when input costs rise faster than output prices. Sophisticated investors can exploit these sectoral differentials through tactical asset allocation within equity portfolios.

6.6 Policy Implications

The findings have several important implications for monetary policy, financial regulation, and investor education. The RBI's flexible inflation targeting framework (targeting 4% CPI with a ±2% tolerance band) has been broadly successful in anchoring inflationary expectations, though the 2022-23 breach of the upper tolerance band highlighted the challenges posed by

external shocks. Communicating the inflation outlook clearly to the public can help improve the quality of investment decisions.

The low awareness of Inflation-Indexed Bonds (only 32% awareness in the survey) suggests that SEBI and RBI need to invest significantly in investor education and product marketing for inflation-hedging instruments. Similarly, the potential of sovereign gold bonds as a more liquid and return-enhancing alternative to physical gold is yet to be fully tapped by Indian investors.

CHAPTER 7: CONCLUSIONS AND RECOMMENDATIONS

7.1 Conclusions

The current study has analyzed the effects of inflation on investments in India using a thorough research design that includes both primary and secondary approaches such as collecting survey data from 200 investors and analyzing macroeconomic and financial trends for 2015-2024. The important findings of the study include:

First, there is a significant effect of inflation on investment decision making in India. Increase in inflation leads to reduction in investments in equity and an increase in investments in gold which is in accordance with theoretical and empirical predictions made for Indian and international markets.

Second, gold acts as the best short-term hedge against inflation for investors in India, considering both practical reasons as well as cultural considerations. Gold gives positive real returns in case of inflation with a correlation of 0.72 between gold and CPI.

Third, stock markets in India have shown themselves to be good inflation hedges over longer investment periods of five years or more, yielding annual real returns of 8%-15%. However, high levels of inflation affect the performance of equities negatively over shorter time frames, inducing behavior that may be harmful for long-term investments.

Fourth, fixed deposits, although being the dominant instrument for household savings, provide negative real returns when facing high inflation. The tendency to invest in FD despite their poor performance can be explained by behavioral issues like loss aversion, status quo bias, and lack of financial literacy.

Fifth, real estate serves as a good inflation hedge at least in some cities (such as Bangalore, Hyderabad, and Pune). However, due to its location-specificity and liquidity problems, it cannot be considered a hedge against inflation throughout India.

Sixth, there is considerable financial literacy gap in India, especially among the poor, in terms of inflation effect on real returns and instruments available to fight inflation like inflation-indexed bonds or sovereign gold bonds.

7.2 Recommendations

S.No.	Recommendation	Rationale	Target Audience
1	Maintain inflation-aware portfolio	Inflation erodes real wealth; regular portfolio review aligned with inflation trends preserves purchasing power	Individual Investors

S.No.	Recommendation	Rationale	Target Audience
2	Increase equity allocation for long-term goals	Equity delivers superior real returns over 5+ years; under-allocation is a risk for long-term investors	Young Investors
3	Use Sovereign Gold Bonds instead of physical gold	SGBs offer gold price appreciation plus 2.5% p.a. interest and no storage cost or impurity risk	All Investors
4	Invest in FMCG & Commodity ETFs during high inflation	Inflation-benefiting sectors provide natural hedge within equity portfolio	Advanced Investors
5	Promote Inflation-Indexed Bonds	Low awareness; IIBs provide guaranteed real return protection	RBI & SEBI
6	Enhance financial literacy programs	Investor education reduces behavioral biases and improves real return awareness	Government & Regulators
7	Use SIP for equity investment in volatile periods	Systematic Investment Plans average out the cost of equity purchase during inflationary volatility	Retail Investors

Table 7.1: Policy Recommendations Summary

7.3 Future Research Directions

Future scope for this research includes:

(i) Longitudinal analysis to track investors' behavior in repeated inflationary cycles in India,

(ii) Comparative study between investor behavior towards inflation in India vis-a-vis other emerging economies like Brazil, South Africa, and Indonesia to analyze the influence of institutional and cultural factors,

(iii) Evaluation of effectiveness of Digital Gold and Cryptocurrency as hedge against inflation in India due to rapid growth in popularity of these instruments,

(iv) Influence of household debt on the association between inflation and investment behavior in India – an unexplored area till date,

(v) Effectiveness of monetary policy communication of RBI on investment behavior and inflationary expectation among retail investors – another important future avenue of research.

7.4 Final Remarks

Inflation is an inescapable reality of economic life, and its management — both by monetary authorities and by individual investors — is fundamental to financial well-being. This study demonstrates that Indian investors are broadly aware of inflation's impact and make rational responses, particularly through gold allocation. However, significant behavioral biases and financial literacy gaps remain, and addressing these through investor education, product

innovation, and clear policy communication will be essential to ensuring that India's growing investor base makes optimal decisions in navigating the challenges of inflation.

REFERENCES

1. Boudoukh, J., & Richardson, M. (1993). Stock returns and inflation: A long-horizon perspective. American Economic Review, 83(5), 1346-1355.

2. Chen, N. F., Roll, R., & Ross, S. A. (1986). Economic forces and the stock market. Journal of Business, 59(3), 383-403.

3. Fama, E. F. (1981). Stock returns, real activity, inflation, and money. American Economic Review, 71(4), 545-565.

4. Fisher, I. (1930). The Theory of Interest. Macmillan: New York.

5. Gupta, R., & Mishra, S. (2015). Retail investor behavior during high inflation: Evidence from North India. Indian Journal of Finance, 9(4), 56-71.

6. Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. Econometrica, 47(2), 263-291.

7. Markowitz, H. (1952). Portfolio selection. Journal of Finance, 7(1), 77-91.

8. Patel, J. (2012). Inflation and equity returns in India: A long-run perspective. Finance India, 26(2), 112-128.

9. Pattanaik, S., Muduli, S., & Ray, S. (2019). Inflation expectations of households: Do they influence wage-price dynamics in India? Reserve Bank of India Working Paper Series, WPS (DEPR): 08/2019.

10. Reserve Bank of India. (2024). Annual Report 2023-24. Mumbai: RBI Publications.

11. Reserve Bank of India. (2024). Monetary Policy Report, April 2024. Mumbai: RBI Publications.

12. Securities and Exchange Board of India. (2024). Annual Report 2023-24. Mumbai: SEBI.

13. Sharma, A., & Agarwal, D. (2018). Inflation hedging effectiveness of asset classes in India: 2000-2017. Indian Economic Review, 53(1-2), 45-68.

14. World Gold Council. (2024). Gold Demand Trends Full Year 2023. London: WGC Publications.

15. Ministry of Statistics and Programme Implementation. (2024). Consumer Price Index - Base Year 2012. New Delhi: MoSPI.

16. National Housing Bank. (2024). RESIDEX: Residential Property Price Index. New Delhi: NHB.

17. Association of Mutual Funds in India. (2024). AMFI Annual Statistics 2023-24. Mumbai: AMFI.

18. CMIE. (2024). Prowess Financial Database. Centre for Monitoring Indian Economy, Mumbai.

APPENDIX: RESEARCH QUESTIONNAIRE

Survey Questionnaire: Impact of Inflation on Investment Decisions in India

Respondent Information (Confidential - For Research Purpose Only)

Name (Optional): _____

Age: ____ Gender: Male / Female / Other

Occupation: _____

Annual Income: Below 5L / 5-10L / 10-20L / Above 20L

Investment Experience: < 2 years / 2-5 years / 5-10 years / > 10 years

Section A: Inflation Awareness

Please rate your agreement on a scale of 1 to 5 (1=Strongly Disagree, 5=Strongly Agree):

1. I am aware of India's current rate of inflation. 1 2 3 4 5
2. I regularly track CPI/WPI inflation data published by MoSPI. 1 2 3 4 5
3. I understand the difference between nominal and real rate of return. 1 2 3 4 5
4. I am aware of the RBI's inflation target of 4% (+/-2%). 1 2 3 4 5

Section B: Investment Behavior

5. Inflation significantly influences my investment decisions. 1 2 3 4 5
6. I increase my gold investment when inflation rises above 6%. 1 2 3 4 5
7. I prefer equity over fixed deposits for long-term wealth creation. 1 2 3 4 5
8. Real estate is a reliable hedge against inflation in India. 1 2 3 4 5
9. Fixed deposits in banks adequately protect against inflation. 1 2 3 4 5
10. I review and rebalance my portfolio when inflation changes significantly. 1 2 3 4 5

Section C: Inflation Hedging Preferences

Q11. Which asset do you prefer most as an inflation hedge? (Tick one)

a) Gold b) Equity Mutual Funds c) Real Estate d) Sovereign Gold Bonds e) Fixed Deposits

Q12. What percentage of your portfolio do you typically allocate to inflation-hedging assets?

a) Less than 10% b) 10-25% c) 25-50% d) More than 50%

Q13. Have you ever invested in Inflation-Indexed Bonds issued by the Government of India?

a) Yes b) No c) Not aware of this instrument

Section D: Behavioral Finance

14. I tend to sell equity investments during high inflation periods. 1 2 3 4 5

15. Past inflation experiences strongly influence my future investment choices. 1 2 3 4 5

16. I make investment decisions based on expected future inflation, not just current inflation. 1 2 3 4 5

17. I consult a financial advisor when making inflation-adjusted investment decisions. 1 2 3 4 5

18. I would be willing to take higher risk to ensure inflation-beating returns. 1 2 3 4 5