Indian Economy · GS - III

Persistent food-price inflation can weaken household purchasing power while complicating monetary policy decisions in India. Examine the limitations of monetary policy in controlling supply-driven inflation and suggest complementary measures to ensure price stability.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 13/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

CPI inflation, food supply shocks, demand-pull and cost-push inflation, monetary policy transmission, repo rate, agricultural supply chains, buffer stocks, fiscal measures, inflation expectations, household purchasing power.

Model Answer

Introduction

Retail inflation affects household purchasing power, savings and consumption. Food-price increases are particularly significant in India because food occupies a substantial share of household expenditure.

Limitations of Monetary Policy

- **Supply-side shocks:** Higher food prices caused by weather disruptions or supply shortages cannot be directly resolved through interest-rate changes.

- **Growth trade-off:** Excessive monetary tightening may raise borrowing costs and weaken investment and consumption.
- **Transmission delays:** Changes in policy rates take time to influence lending rates and aggregate demand.
- **Distributional impact:** Lower-income households face greater hardship because food accounts for a larger proportion of their expenditure.

Complementary Measures

1. **Agricultural reforms:** Improve irrigation, storage, logistics and agricultural productivity.
2. **Market intervention:** Use buffer stocks and calibrated open-market operations to manage supply shortages.
3. **Trade policy:** Ensure predictable import-export policies for essential commodities.
4. **Targeted welfare:** Strengthen food security programmes for vulnerable households.
5. **Institutional coordination:** Align monetary, fiscal and supply-management policies while protecting central-bank credibility.

Conclusion

Price stability requires more than interest-rate adjustments. A coordinated strategy addressing supply constraints, inflation expectations and household vulnerability is essential for sustainable economic stability.

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