Indian Economy · GS - III

The simultaneous rise in wholesale and retail inflation can create significant challenges for monetary policy and economic growth. Examine the causes and consequences of cost-push inflation in India and suggest suitable policy responses.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 16/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

WPI and CPI, fuel and power prices, input costs, supply-side disruptions, cost-push inflation, monetary policy transmission, RBI inflation targeting, industrial competitiveness, household purchasing power, supply-side interventions.

Model Answer

Introduction

The reported increase in India's October 2026 WPI inflation to 12.29%, driven partly by fuel and primary article prices, highlights the risks of cost-push inflation.

Causes of Cost-Push Inflation

- **Energy prices:** Higher fuel and electricity costs increase transportation and production expenses.
- **Input costs:** Rising prices of raw materials and primary goods raise manufacturing costs.
- **Supply disruptions:** Global uncertainties and logistical constraints can reduce supply and increase prices.
- **Imported inflation:** Higher international commodity prices can raise domestic production costs.

Economic Consequences

- Reduces household purchasing power and increases the cost of living.

- Compresses industrial profit margins and affects competitiveness.
- Creates uncertainty for investment and consumption.
- May complicate monetary policy decisions by increasing inflationary pressure while slowing growth.

Policy Measures

The RBI must assess CPI inflation and underlying price pressures while calibrating interest rates. The government should improve logistics, diversify energy supplies, strengthen agricultural supply chains and reduce avoidable input bottlenecks.

Conclusion

A balanced combination of monetary discipline and supply-side reforms is essential to contain inflation without undermining economic growth.

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