Indian Economy · GS - III

Explain how geopolitical developments, crude oil prices and monetary policy decisions of the US Federal Reserve influence international gold prices.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 21/10/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Safe-haven demand, US–Iran nuclear negotiations, oil supply, inflation, Federal Reserve, interest rates, opportunity cost, US dollar, global commodity markets.

Model Answer

Introduction:

Gold is an important safe-haven asset whose international price is influenced by geopolitical uncertainty, inflation expectations, interest rates and movements in the US dollar.

Main Body:

1. Geopolitical developments: Conflicts and diplomatic uncertainty increase demand for gold as investors seek relatively safe assets. Successful negotiations may reduce this demand.

2. Crude oil prices: An increase in oil prices can raise inflationary pressures. However, the impact on gold depends on whether inflation concerns, interest-rate expectations or safe-haven demand dominate.

3. Federal Reserve policy: Higher interest rates increase the opportunity cost of holding gold, which does not generate interest. Expectations of rate cuts may support gold prices, while persistent inflation can delay cuts and

put pressure on bullion.

4. US dollar: A stronger dollar generally makes dollar-denominated gold more expensive for buyers using other currencies, potentially reducing demand.

Conclusion:

Gold prices reflect the interaction of geopolitical risks, inflation, monetary policy and currency movements. Therefore, investors and policymakers must consider these factors together rather than relying on any single indicator.

Priority: Moderate — relevant for GS-III Economy, particularly inflation, monetary policy and international commodity markets.

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