

## THE IMPACT OF RISING GOLD PRICES ON CONSUMERS

**P.Amra Mariyam**

*Assistant Professor in Commerce, Sadakathullah Appa College (Autonomous), Rahmath Nagar*

### **Abstract**

*Gold is traded as a commodity but primarily it is a monetary asset. It counts up to more than 65% of gold's total accumulated holdings when it comes to 'value for investment' by central bank reserves, private players and high-carat jewellery. The remaining accumulated gold deposits are as a 'commodity' for jewellery in Western markets and usage in industry. It is a highly liquid market. It is argued that the real price of gold is should be driven by stock equilibrium rather than flow equilibrium due to large stocks of Gold as against its demand. World's largest gold producing country is South Africa with 394 tons in 2001. On the other hand, world's largest gold consuming country is India with an annual demand of 843.2 tonnes comprising of 26.2% of total world demands. World's gold demand is constantly increasing and it is nearing record levels at 4000 tonnes per year while the mine production is constant at 2250 tonnes per annum (Source: World Gold Council). The gold prices are moving upwards due to the reduction in production level as compared to the demand and also due to the weakening economy of the US. It has been found out the total world gold production would decline about 30% over the next 7 years as the new discoveries in the major gold producing countries have become difficult, expensive and time consuming according to the studies done by The World Bank and Beacon Group. In this scene, the current study was undertaken to find out the impact of the rise in gold prices on consumers.*

**Keywords:** Gold, Liquidity, price rise, consumer, buying decisions.

### **Introduction**

One of the most precious metals on earth till date is gold. Ever since its discovery it has been mesmerising human mind. Since 1990s, the liberalisation of gold import policy, favourable movements in gold and strong economic growth has led to an increase in demand for this yellow metal. Now, India is the largest importer of gold and has a third of the world's supply of gold. Indians are so much obsessed with gold that they are sacrificing their currency and the country's economy for it. Even when there has been a sharp rise in gold prices the demand for this metal has sustained because Indians not only purchase it as a tradition but also consider it as an investment.

### **Definition of Consumer**

The consumer is the one who pays to consume goods and services produced. As such, consumers play a vital role in the economic system of a nation. Without consumer demand, producers would lack one of the key motivations to produce: to sell to consumers. The consumer also forms part of the chain of distribution.

### **Why Indians Prefer and Demand Gold**

#### **1. Cultural Importance**

India is a country rich in heritage and tradition. It is traditional for Indian women to adorn themselves with gold during religious festivals, wedding celebrations or any other

celebration of that kind. Women of different states wear different gold jewellery revealing the various cultures prevailing in India. It is considered auspicious and sentimental and women do not consider liquidating it except in the case of extreme situations where they have no other choice except to sell it.

## **2. Investment Opportunity**

The second reason for preferring gold is due to the investment opportunity associated with it. Besides buying gold as jewellery for adornment, people also purchase it as an investment with the hope of getting more return in future. This is more common in rural areas where they have little access to banks and find it easy to lock their savings in gold purchases rather than confronting the document and minimum balance formalities associated with depositing it in the banks. Also now with the introduction of gold ETFs buying gold exclusively as an investment tool is possible, as the drawbacks of holding physical gold such as safety and purity is nullified .

## **3. Liquidity**

Another reason relates to its liquidity aspect. It can easily be sold or used as a collateral with the nearby money lender as a hedge in times of hardship or unforeseen situations. This is not so in the case of other financial instruments where redeeming them, considerably takes quite a lot of time.

## **Statement of the Problem**

The current account deficit is already the double of what economists recommend i.e. 5.4 percent of GDP. The reason behind this is that India is the biggest importer of gold and that it is the most imported commodity next to oil. Why is it that the desire to hold this yellow metal never slides down despite the fact that it is the main factor responsible for weakening the value of Indian rupee. Economists and analysts are probing into the issue and trying to bring the value of rupee back to its level and meanwhile this study is undertaken to bring out the issues related to the desire for this yellow metal among the people of India and the impact of gold price hike on their purchasing decision.

## **Objectives**

1. To find out the nature of consumers' gold purchase.
2. To determine the reasons for purchasing gold.
3. To analyse whether a gold price hike influence their purchasing decision.

## **Profile of the Study Area**

The study was undertaken in Tirunelveli district. It is in the south of the state of Tamilnadu. It is known for its educational institutions which are mostly situated in the city

of Palayamkottai. The district has well connected roads and railways but has no airport. The nearest airport is in Thoothukudi.

### **Methodology**

In this study to collect information random sampling method was followed. The sample size was thirty respondents. The study was conducted from September 18-September 23, 2015 by meeting respondents both at home and at jewellery shops. Both primary and secondary data were used for the study. Primary data was collected by framing a proper questionnaire containing appropriate questions. Secondary data was collected from websites. The collected data was analysed using statistical tools like percentage and Garrett ranking.

### **Limitations of the Study**

1. The respondents were reluctant to reveal some information about their gold purchases.
2. Time at our disposal was limited.

### **Findings of the Study**

1. Majority (69%) of the respondents are women in this study.
2. Most (60%) of the respondents belong to the age group of 31- 35.
3. Most of the respondents (73%) are married.
4. It is evident from the study that most of the respondents (62%) are employed in private companies.
5. Most of the respondent's (53%) annual income is around Rs 12, 00,000.
6. Most of the respondents use up their savings to buy gold.
7. Among the respondents who buy gold jewellery, most (56%) of them buy it for everyday wear.
8. It is evident from the study that majority (59%) of the respondent's purchases are planned in advance.
9. It is inferred from the study that most (73%) of the respondents buy gold once a year.
10. It is found from the study that most (56%) respondents buy jewellery from branded stores because in reason trends there is an inclination towards branded jewellery.
11. It is found from the study that majority (63%) of the respondents agree that an increase in gold price influence their buying decision.
12. It is inferred from the study that majority (52%) of the respondents do not postpone their purchase decision at present even if there is rise in price.
13. It is evident from the study that most (66%) of the respondents agree that high gold price in future will not influence their buying decision.

14. It is inferred from the studies that respondents who buy gold for adornment rank first and those who buy gold because they have no other better investment option ranks fourth.

**Reasons for Purchasing Gold and Rank Position**

S. No.	Reasons	Average	Rank
1	Adornment	60.61	I
2	Investment	53.23	II
3	Liquidity	44.80	III
4	No better alternate investment option	41.34	IV

Source: Primary data

**Suggestions**

1. An increase in the demand for gold indicates that the Indian household possess huge savings and are looking for a means for investing it safely. The government must extend the reach of banks and encourage the people to deposit savings with them, in return for interest, so that it can tap their savings which will result in lower purchases of gold.
2. Retail banking in rural areas must be facilitated with the help of information technology.
3. Since people prefer gold for its liquidity to encourage other means of investments the government may introduce highly liquid across the counter instruments with guaranteeing buybacks.
4. An education campaign at a large level should be organised to educate the people about the negative impacts of purchasing gold, on the economy.

**Conclusion**

There has always been a demand for gold but what we see nowadays is a different type of demand, which is what could be called as the demand for investment. By purchasing foreign gold we are sending huge amount of Indian currency abroad and driving down the value of rupee. And whatever we earn as foreign exchange is used up in paying for the import of gold which should be used for the purchase of essential commodities. According to Finance Minister P. Chidambaram "If for one year there are no gold imports, it will change the current account deficit story of the country, "He also said "Indians think they are buying gold in rupees. Actually they are buying gold in dollars." Therefore resisting the temptation to buy gold will show positive impact on every aspect of the Indian economy.

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