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RBI Working Paper Series 9:
Corporate Pricing Power, Inflation and IIP Growth: An Empirical Investigation

The Reserve Bank of India today placed on its website a Working Paper titled "[Corporate Pricing Power, Inflation and IIP Growth: An Empirical Investigation](#)" under the Reserve Bank of India Working Paper Series* (RBIWPS). The working paper has been authored by Shri Angshuman Hait, Shri Joice John, Dr. Abhiman Das and Shri Anujit Mitra.

Pricing power is generally characterised as the degree to which firms pass through changes in input costs to prices of finished goods. Previous studies have indicated that the degree to which firms pass through both, price increases at competing firms and cost increases, depends upon the level of inflation. Further, the relationship among corporate pricing power, inflation and output might well be affected by other variables, namely, market structure and the level of economic activity.

This paper examines the relationship among pricing power, inflation and manufacturing output under a structural vector auto regression (SVAR) framework, after controlling the effects of market power and level of economic activity using quarterly data for Q1 of 2000-01 to Q3 of 2011-12. The analysis was carried out for Non-Food Manufacturing Products (NFMP), various use-based categories and select industries.

Major findings of this study are:

- The pricing power has statistically significant, positive and lagged impact on output growth for the NFMP group of companies at the aggregate level.
- The impact of declining pricing power on inflation is found to be positive but relatively subdued.
- The fall in pricing power is reflected sooner in the moderation of output growth than on inflation.
- Among the use-based groups, the impact of pricing power on inflation and output growth is significant and positive only in the case of intermediate goods.

**The Reserve Bank of India introduced the RBI Working Papers series in March 2011. These papers present research in progress of the staff members of the Reserve Bank and are disseminated to elicit comments and further debate. The views expressed in these papers are those of authors and not those of the Reserve Bank of India. Comments and observations may kindly be forwarded to authors. Citation and use of such papers should take into account its provisional character.*

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