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**RBI Working Paper No. 10/2020:  
Are Food Prices Really Flexible? Evidence from India**

The Reserve Bank of India today placed on its website a Working Paper titled "[Are Food Prices Really Flexible? Evidence from India](#)" under the Reserve Bank of India Working Paper Series<sup>1</sup>. The paper is authored by GV Nadhanael.

The paper looks at the price setting behaviour in food sector in India using a novel micro level dataset. The paper reaffirms that contrary to the conventional notion of flexible prices, food prices in India exhibit varying degrees of price stickiness, documenting evidence for heterogeneity in price stickiness being driven by product group characteristics and spatial variation of price stickiness. The paper also shows that the price setting behaviour in food sector broadly matches predictions of sticky price models. A calibrated menu cost model for Indian food prices shows that differences in productivity processes, market power and menu costs could account for the differences in price stickiness across product groups. The paper computes a measure of sticky food inflation - based on a stickiness re-weighted food price index - to show that it does not perfectly align with the conventional measure of core inflation (*i.e.*, CPI excluding food and fuel). This highlights why paying attention to the sticky component of food inflation – besides core inflation – is important for the conduct of monetary policy in India.

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**(Yogesh Dayal)**  
Chief General Manager

<sup>1</sup> 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 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.