Referee Report on
The Socio-Economic Implications of Gold Price Inflation for Rural Households in India

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The paper surveys a small number (57) of households in Mailam Village, Villupuram District, Tamil Nadu, India to "examine the impact of rising gold prices on purchasing behavior and financial planning."

The authors (I use the plural since I don't know whether or not this is a single-authored paper) state up front that the rapid increase in gold prices over the last ten years (from about US$1200 per troy ounce to over US$4900 per troy ounce) is a problem because the income of poor people in India has stagnated. They write, "This disparity has left the desire of many rural households to own gold unfulfilled."

As someone who teaches financial economics, including the basics of the Capital Asset Pricing Model (CAPM) at the undergraduate level, I was genuinely puzzled by this assertion. The authors seem to be implicitly assuming that gold is somehow indivisible. This hypothesis is confirmed by the abstract to the paper, which quotes the price of gold as having increased from 27,445 rupees to 85,300 rupees over the ten-year time period, **without stating the number of units of gold to which the price refers**. What should count for an investor is the beta of an asset (the correlation of its return with the market, which for gold is around zero on average and is negative during periods of high inflation) compared to its expected rate of return.

It is true that **physical** gold is to some extent indivisible if it is purchased in the form of coins. However, even for physical gold, "fractional gold" is becoming increasingly common. The AI engine of my Brave browser states, "Yes, it is possible—and increasingly common—to buy a fraction of an ounce of gold. Fractional gold products include coins, bars, and rounds that contain less than one troy ounce of gold, such as 1/10 oz, 1/4 oz, 1/2 oz, or even 1 gram. These are produced by major mints like the U.S. Mint (American Gold Eagle), Royal Canadian Mint (Maple Leaf), and Austrian Mint (Philharmonic)." The cost of even a gram of physical gold would be close to US$160, which could be beyond the reach of poor Indian households.

However, smaller units are available in the form of exchange-traded funds (ETFs). In Canada, where I am writing this report, the Sprott Physical Gold Trust sells units corresponding to approximately 0.0078 ounces of gold (see the reference below). "The gold is stored at the Royal Canadian Mint and independently audited each year by KPMG, adding an extra layer of confidence around custody and reporting." I haven't checked on the transaction cost of purchasing a single unit, but the management expense ratio (MER) is 0.39 percent. I would guess that the costs to an average household of securing physical gold on their premises (in a well-secured safe) or in a safe deposit box at a financial institution would exceed this in percentage terms.

The last section of the paper is called Suggestions and Recommendations. There, the authors suggest expanding the survey to the entire district, the entire state, or the entire country. I think the survey methodology of the paper is fundamentally flawed. The survey should try to get at the **reasons** why households think they cannot fulfill their desire to acquire gold. Are they unaware of the possibilities of buying fractional physical gold? Are there import restrictions on purchasing fractional physical gold from foreign mints? Does the Reserve Bank of India not provide this service? Do they not know about the possibility of buying gold ETFs? Do they know about this possibility but do not have easy access to a seller of ETFs either where they live or over the internet, at a reasonable cost? Are they, for cultural reasons, wedded to the desire to hold **physical** gold? Indeed, *Coinbazaar* (reference below) states, "India's love for gold goes beyond just wearing it. It shows a person's marital status, wealth, and social standing. Gold is deeply woven into Indian society."

If physical gold does have such a strong cultural significance, I would be willing to take the following bet. Over the very long haul, with the pace of economic development in India since its independence and the steady reduction of absolute poverty, more Indian households today (both absolutely and as a percentage of all households) have access to purchasing physical gold now than in 1947. See Backhouse (2023).

Instead of the suggestions in the last section of the paper, I would suggest one easy recommendation. If the equivalent of the Sprott Physical Gold Trust does not exist in India, and there is strong underlying demand for gold as an asset, then there is a positive return to be made by supplying gold ETFs at a reasonable cost. Indeed, investigating the time cost (in terms of hours worked) to buy an ounce of gold in 2026 versus 1947 for the median Indian household would make an interesting empirical study.

References

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