

# Relationship Between Monetary Policy and Industrial Production in India

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Chapter

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## Abstract

The purpose of this research paper is to find out the empirical relationship between monetary policy initiatives of Reserve Bank of India and industrial production in India since April 1991–1992 to May 2015–2016. Monetary variables are the broad money and weighted average lending rate (WALR), whereas the industrial production variable is Index of Industrial Production (IIP)-manufacturing. Models used are VECM, ARDL-bound test and VAR. The study has found that there is long-run relationship between the broad money supply and IIP-manufacturing, similarly, changes in WALR have significant and immediate impact on the IIP-manufacturing. Based on these empirical results, it is argued that monetary policy variables and production share a strong relationship and policy to control only inflation may adversely impact the production in the economy.

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