

## Consumer Behaviour Towards Sovereign Gold as an Inflation Hedge

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### Abstract

The current study explores consumer behaviour towards sovereign gold as a hedge against inflation. Sovereign gold bonds are sovereign securities of the government, denominated in grams of gold, with comparable interest rates but without the need for physical ownership. The study therefore introduces sovereign gold as an alternate financial investment against the traditional reliance on jewellery or gold coins. Primary data were collected from 300 respondents and the proposed relationships were examined using Partial Least Squares Structural Equation Modeling (PLS-SEM). The model measures the impact of financial literacy, perceived hedging effectiveness, inflation perception, and institutional trust on the decisions related to attitude and investment intention. The findings indicate that, attitude towards sovereign gold is the strongest driver towards investment intention. Investment decisions are influenced by institutional trust and perceived hedging effectiveness that shape the attitude of consumers. Financial literacy of consumers enhances the evaluation of sovereign gold as an inflation hedge, but the impact of inflation perception on the perceived hedging effectiveness is not significant. Investment decisions towards sovereign gold are primarily influenced by behavioural and institutional factors than macro-economic awareness. The study contributes to the literature by evidencing the drivers of consumer investment intention for government backed gold.

*Keywords:* Sovereign Gold, Perception, inflation, consumer, Financial literacy.

### Introduction

According to the society, gold plays an important role to increase the value of an individual and it is one of the powerful assets which never goes in loss. Now a days, it's being a trend to invest in gold. (Kumari, 2025) When the central government noticed that gold acquisition in physical form is not possible for everyone then they introduced the Sovereign gold bonds in 2015 which facilitates to invest in gold in the form of stocks or mutual funds. It is most secure form because it is issued by the Reserve bank of India under the guidance of Central Government and also helps in inflation hedging so, it becomes the safest assets for risk averse investor. (Ghosh D, 2004) As the inflation rises, gold price would rise. Gold is a tool for hedge against inflation in the long run but in the short run, it becomes volatile and will result in loss or can consider a complicated role as uncertainty arises. Sovereign gold is more beneficial in macroeconomic factors as if person buys physical gold, then it increases the imports and decreases in foreign currency and it will result in widening the current account deficit of the country. (Chaudhary, (2016).) Physical gold is an unproductive material for the government or an individual. Apart from that, Sovereign gold bonds help in growth of the economy as it uses by the government for the public expenditure and nation building.

### **Sovereign Gold Bonds**

These are the gold bonds or securities which are denominated in grams of gold and is issued by Reserve bank Of India in 2015 under Gold Monetisation scheme to offer the other alternative of Physical gold, as Physical gold is costly and non-affordable for every grade of income. Key points are as follows:-

Maturity Period is limited to 8 Years, but premature redemption has started from 5<sup>th</sup> year.

The current interest rate is 2.5% per annum.

Minimum investment is allowed at gram of gold per investor.

Maximum Investment is 4Kg of gold for an Individual or HUF but Trusts and universities can extend their limit to 20 KG of gold investment which is permissible.

Capital Gain is exempted on the redemption of Sovereign gold Bonds.

Objectives of Research

1. To explore the impact of inflation perception, financial literacy and government trust & RBI on perceived hedging effectiveness towards sovereign gold.
2. To analyse the role of hedging on consumer's attitude and investment intention in Sovereign gold.
3. To evaluate why perceived hedging effectiveness is taken as a mediator between inflation perception, financial literacy and consumer's attitude towards sovereign gold.

### **Literature Review**

The theory of planned behaviour is used to explain intention of investment as investment intention is act as a core objective and that intention shows deliberate or planned behaviour. This theory is implemented to understand the attitude and intention towards sovereign gold. (Norizan, (2025)) study explores the interconnection between the financial attitude and behavioural control towards financial wellbeing. Here, they have used this theory to prove the intention or attitude of a consumer. In this paper, this theory is primarily implemented to understood the behaviour of a person towards gold. Intention perception, financial literacy and Trust in government & RBI are mapped as beliefs, Attitude is taken to make understand the behaviour or thinking whether it is positive or negative of a customer towards sovereign gold. Here, IP, FL & TG is shown as a cognitive behaviour of an individual which facilitates the researcher regarding decisions. Behavioural intention is for getting the information about the purchasing of Sovereign gold. Behavioural theory plays an important role as the investor decisions are influenced by some of the factors such as Inflation perception, Safety perception and Institutional trust. Their decisions are varied in such a way that whether they should purchase in a liquid currency or to shift in a hard currency.

Previous papers explained that gold is a main conductor to hedge against inflation. So, I have perceived gold as a hedge against Inflation. Here, Attitude and Investment Intention is considered as a dependent variable because it is dependent on Inflation perception, Financial Literacy and trust in government & RBI as these are an independent variable and PHE is mediator variable. (Ghosh et al., 2004) has suggested that gold is a perfect element to judge as a inflation hedge and afterwards, they decided to take the inflation as a short run benefit or a long run benefit. It concludes that gold is an element which helps in hedging against inflation in the long run. Worthington and Pahlavani (2007) also suggested that gold can become a hedge against inflation particularly in the long term. Baur and McDermott (2010) identified gold as a hedge and safe haven in different markets.

### **H1 There is a significant positive impact of Inflation perception on perceived hedging effectiveness towards sovereign gold.**

Financial literacy is considered as a cognitive belief which influences financial decision-making behaviour (Lusardi & Mitchell, 2014). Higher financial literacy helps investors to evaluate investment alternatives such as gold and understand its hedging effectiveness (Van Rooij, Lusardi & Alessie, 2011).

**H2 Financial literacy shows the significant impact on perceived hedging effectiveness towards sovereign gold.**

Perceived hedging effectiveness acts as a mediator variable. Gold is perceived as a hedge against inflation (Ghosh et al., 2004; Baur & McDermott, 2010), and this perception influences the attitude of consumers. According to the Theory of Planned Behaviour, beliefs influence attitude formation (Ajzen, 1991).

**H3 There is a positive role of perceived hedging effectiveness on consumer's attitude towards sovereign gold.**

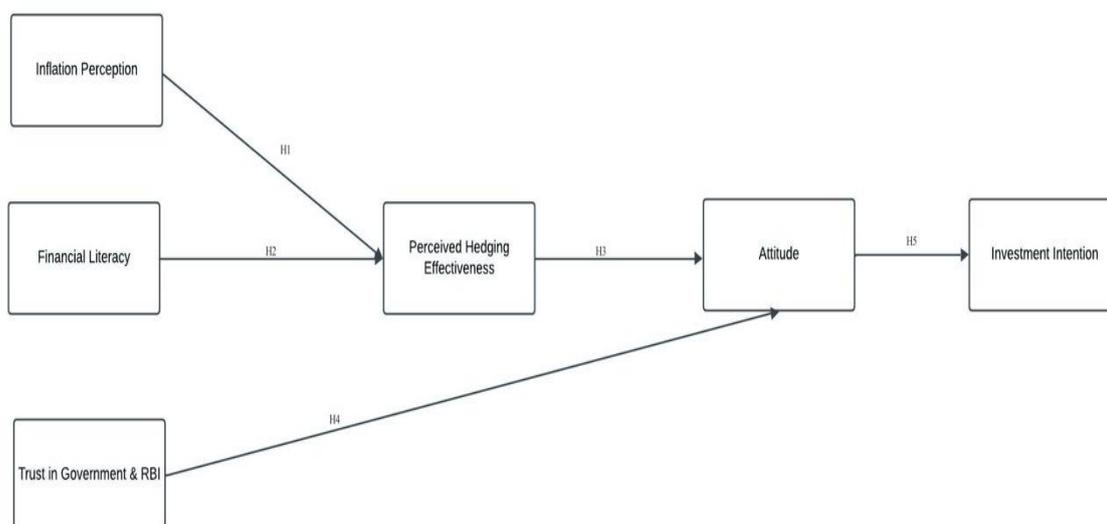
Trust in government and institutions influences financial behaviour and investment decisions (Knack & Keefer, 1997; Guiso, Sapienza & Zingales, 2008). Under the Theory of Planned Behaviour, such institutional trust functions as a belief that shapes attitude (Ajzen, 1991).

**H4 Trust on government & RBI has a significant positive effect on consumer's attitude towards sovereign gold.**

According to the Theory of Planned Behaviour, attitude significantly influences behavioural intention (Ajzen, 1991). Therefore, consumer's attitude towards sovereign gold impacts their investment intention.

**H5 There is a significant impact of consumer's attitude towards investment intention.**

**Fig.1 Conceptual Model**



**RESEARCH METHODOLOGY**

This study followed a quantitative cross-sectional approach to explore the behaviour of consumer towards sovereign gold as an inflation hedge. Primary data were collected by preparing the closed ended questionnaire administered to individual consumers familiar with gold-based investment instruments. Data was collected by 400-500 respondents at initial level by accumulating some evidences to prove the hypothesis of research. Prior to analysis, we get to know that some datasets are inconsistent to prove the results and missing values which are unfit for reliable results. Accordingly, the accurate data count was of 300 respondents which were used for further analysis. The finalized sample size of 300 respondents will be used according to Partial least square structural equation modelling as it exceeds the minimum sample size which is adequate for finding out the reliable results. All measured value has used a five-point Likert scale ranging from 1 to 5 as strongly disagree and strongly agree respectively. It is used by following a two-step approach involving assessment and evaluation of structural model.

**Table 1. Demographic Profile of Respondents****Marital Status**

Marital Status	Frequency	Percent
Married	148	49.3
Single	152	50.7
<b>Total</b>	<b>300</b>	<b>100</b>

**Gender**

Gender	Frequency	Percent
Male	174	58
Female	126	42
<b>Total</b>	<b>300</b>	<b>100</b>

**Education**

Education Level	Frequency	Percent
Graduate	129	43
High School	65	21.7
Intermediate	39	13
Postgraduate	55	18.3
Others	12	4
<b>Total</b>	<b>300</b>	<b>100</b>

**Age**

Age Group	Frequency	Percent
20–29	161	53.7
30–39	16	5.3
40–49	75	25
50–59	48	16
<b>Total</b>	<b>300</b>	<b>100</b>

## 5. Measurement Model Assessment

The measurement model was analysed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The evaluation focused on indicator reliability, internal consistency reliability, and convergent validity. The detailed results are presented in Table 2.

### 5.1 Indicator Reliability

Indicator reliability was assessed through the examination of outer loadings. As shown in Table 2, all measurement items loaded strongly on their respective constructs, exceeding the recommended threshold of 0.70. The loading values ranged from 0.725 to 0.905, indicating that each indicator adequately reflects its corresponding latent variable. Since all items met the acceptable criterion, none were removed from the model.

### 5.2 Internal Consistency Reliability

Internal consistency was evaluated using Cronbach's alpha and composite reliability ( $\rho_a$ ). As reported in Table 2, Cronbach's alpha values ranged from 0.713 to 0.824, all above the minimum acceptable level of 0.70. Composite reliability values also exceeded 0.70, varying between 0.734 and 0.834. These findings confirm that the constructs demonstrate satisfactory internal consistency.

### 5.3 Convergent Validity

Convergent validity was assessed using the Average Variance Extracted (AVE). As indicated in Table 2, the AVE values for all constructs were above the recommended threshold of 0.50, ranging from 0.634 to 0.740. This confirms that the constructs explain a substantial proportion of variance in their indicators.

### 5.4 Measurement Model Summary

Overall, the results presented in Table 2 confirm that the measurement model satisfies the required criteria for reliability and validity. The constructs demonstrate adequate indicator reliability, internal consistency, and convergent validity, supporting their suitability for structural model evaluation.

Table 2. Measurement Model Results

Construct	Items	Loadings	Cronbach's alpha	Composite reliability (rho_a)	Average variance extracted (AVE)
ATSG	ATSG1	0.905	0.824	0.834	0.74
	ATSG2	0.856			
	ATSG3	0.818			
FL	FL1	0.74	0.713	0.734	0.634
	FL2	0.759			
	FL3	0.882			
II	II1	0.845	0.799	0.803	0.713
	II2	0.848			
	II3	0.841			
IP	IP1	0.847	0.782	0.822	0.695
	IP2	0.892			
	IP3	0.755			
PHE	PHE1	0.827	0.752	0.766	0.668
	PHE2	0.862			
	PHE3	0.759			
TG	TG1	0.837	0.748	0.808	0.655
	TG2	0.725			
	TG3	0.859			

### 5.5 Discriminant Validity

Discriminant validity was examined using the Fornell–Larcker criterion and cross-loading analysis. The assessment confirmed that each construct is empirically distinct from the others in the model, thereby establishing adequate discriminant validity.

## 6. Structural Model Assessment: Explanatory Power ( $R^2$ )

The explanatory power of the structural model was assessed using the coefficient of determination ( $R^2$ ) for the endogenous constructs. The  $R^2$  results are reported in Table 3.

### 6.1 Coefficient of Determination ( $R^2$ )

As shown in Table 3, the  $R^2$  values indicate moderate to substantial explanatory power.

The  $R^2$  value for attitude towards sovereign gold (ATSG) is 0.733, indicating that 73.3% of the variance in attitude is explained by its predictor constructs.

The  $R^2$  value for investment intention (II) is 0.577, suggesting that 57.7% of the variance in investment intention is explained by attitude towards sovereign gold.

The R<sup>2</sup> value for perceived hedging effectiveness (PHE) is 0.433, indicating that 43.3% of its variance is explained by its antecedents.

The adjusted R<sup>2</sup> values, also reported in Table 3, closely align with the R<sup>2</sup> values, confirming the stability and robustness of the model.

**Table 3. Coefficient of Determination (R<sup>2</sup>)**

	R-square	R-square adjusted
ATSG	0.733	0.727
II	0.577	0.572
PHE	0.433	0.421

### 7. Structural Model Assessment and Hypothesis Testing

The structural relationships were analysed using path coefficients ( $\beta$ ), t-statistics, and p-values obtained through bootstrapping in PLS-SEM. The detailed hypothesis testing results are presented in Table 4.

#### 7.1 Path Coefficients and Hypothesis Testing

The findings summarised in Table 4 show that four out of five hypothesised relationships are statistically significant.

Attitude → Investment Intention

The relationship between attitude towards sovereign gold (ATSG) and investment intention (II) is positive and highly significant ( $\beta = 0.760$ ,  $t = 10.911$ ,  $p < 0.001$ ), as shown in Table 4. This result supports H5.

Financial Literacy → Perceived Hedging Effectiveness

Financial literacy has a significant positive effect on perceived hedging effectiveness ( $\beta = 0.385$ ,  $t = 2.458$ ,  $p = 0.014$ ), as reported in Table 4. Therefore, H2 is supported.

Inflation Perception → Perceived Hedging Effectiveness

The path from inflation perception (IP) to perceived hedging effectiveness is positive but not statistically significant ( $\beta = 0.313$ ,  $t = 1.635$ ,  $p = 0.102$ ), as shown in Table 4. Thus, H1 is not supported.

Perceived Hedging Effectiveness → Attitude

Perceived hedging effectiveness significantly influences attitude towards sovereign gold ( $\beta = 0.262$ ,  $t = 2.482$ ,  $p = 0.013$ ), as indicated in Table 4. Hence, H3 is supported.

Trust in Government & RBI → Attitude

Trust in government and the RBI demonstrates a strong and significant positive effect on attitude ( $\beta = 0.655$ ,  $t = 6.787$ ,  $p < 0.001$ ), as presented in Table 4. Therefore, H4 is supported.

**Table 4. Structural Model Results and Hypotheses Testing**

Hypothesis	Path	$\beta$	t-value	p-value	Result
H1	IP → PHE	0.313	1.635	0.102	Not supported
H2	FL → PHE	0.385	2.458	0.014	Supported
H3	PHE → ATSG	0.262	2.482	0.013	Supported
H4	TG → ATSG	0.655	6.787	<0.001	Supported

H5	ATSG → II	0.760	10.911	<0.001	Supported
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Overall, the findings indicate that institutional trust and perceived hedging effectiveness are key determinants in shaping consumer attitudes, which subsequently exert a strong influence on investment intention. Although inflation perception demonstrates a positive association, the relationship is not statistically significant. In contrast, financial literacy plays a significant role in strengthening consumers' understanding of sovereign gold as an inflation-hedging instrument.

### 8. Findings and Conclusion

The present study analysed consumer behaviour towards sovereign gold as a hedge against inflation using the PLS-SEM technique. The results identify attitude towards sovereign gold as the most influential determinant of investment intention, emphasising the importance of positive consumer evaluations in shaping investment decisions. The analysis further reveals that trust in the government and the Reserve Bank of India significantly affects consumer attitudes towards sovereign gold. This suggests that institutional credibility enhances confidence in government-backed financial products. In addition, perceived hedging effectiveness positively influences attitude, indicating that consumers are more likely to favour sovereign gold when they believe it effectively protects purchasing power during inflationary periods. Financial literacy significantly contributes to perceptions of hedging effectiveness, suggesting that individuals with greater financial knowledge are better equipped to recognise the inflation-protection attributes of sovereign gold. However, inflation perception does not directly and significantly influence perceived hedging effectiveness. This implies that awareness of inflation, by itself, may not be sufficient to shape investment evaluations without adequate financial understanding. In summary, the findings suggest that institutional and psychological factors play a more decisive role in driving sovereign gold investment intention than macroeconomic perceptions alone.

### 9. Discussion

The findings have implications for the understanding of consumer investment decision making in the context of inflation-hedging instruments. Consistent with the behavioural decision-making literature, the strong relationship between attitude and investment intention suggests that a positive evaluation increases the likelihood that consumers take investment action. The influence of trust in government and the RBI is consistent with the view that institutional reliability influences financial decisions, and in particular is important to risk-averse investors. Given that sovereign gold is a government instrument, substantial credibility arises through institutional backing, and this in turn provides confidence to investors. The positive relationship between perceived hedging effectiveness and attitude is consistent with the view that investors evaluate financial instruments based on perceived functional value. If sovereign gold is perceived as effective in preserving purchasing power during periods of inflation then individuals are more likely to develop a positive evaluation of the instrument. The lack of a relationship between inflation perception and perceived hedging effectiveness suggests that consumers do not automatically translate awareness of inflation into hedging behaviour. Financial literacy emerges as an important variable that may help to convert economic knowledge into financial decisions. From a managerial and policy perspective, these findings suggest that there may be more to gain in strengthening institutional trust and enhancing financial literacy than simply emphasising concerns about inflation.

### 10. Limitations and Future Research

To deepen the literature on sovereign gold investment behaviour, this study has some limitations. First, the cross-sectional nature of the study does not allow to explore the changes in investors' perceptions and hence in the investment behaviour over time. Longitudinal studies may examine the evolution of sovereign gold investment behaviour under different economic conditions. Second, the possibility that self-reported responses may be affected by common method bias should be considered. Even if procedural remedies were adopted in this study, future research may use objective data about the investment behaviour. Third, the use of non-probability sampling may affect the generalisability of the findings. Future research may adopt a probability sampling or consider specific categories of investors (e.g., institutional investors). Fourth, the model could be further improved by

including other variables (e.g., risk tolerance, income) or different gold investment alternatives. Future research may also compare sovereign gold to inflation-hedging investment alternatives.

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