

A Study on Gold Price Volatility and Consumer Buying Behaviour towards Physical Gold

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Gold has traditionally been considered one of the most reliable and culturally significant investment options, particularly in countries like India. However, frequent fluctuations in gold prices have significantly influenced consumer buying behaviour. The present study examines the relationship between gold price volatility and the purchasing behaviour of consumers toward physical gold. Primary data were collected using a structured questionnaire covering demographic characteristics, purchase behaviour, awareness of price movements, and factors influencing gold buying decisions. Ranking techniques were used to identify the most influential factors affecting gold purchases. The findings reveal that price fluctuations significantly influence purchase timing and quantity, while cultural traditions and investment motives continue to drive demand. The study highlights the importance of price awareness, financial capability, and family influence in shaping gold buying behaviour. The research provides insights for jewellery retailers, financial planners, and policymakers to understand consumer responses to volatile gold prices.

Keywords: Gold Price Volatility, Consumer Behaviour, Physical Gold, Investment Behaviour, Jewellery Market

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1. Introduction

Gold has always held a unique position in the economic and cultural landscape of India. Apart from being used as jewellery, it is also viewed as a store of value, a hedge against inflation, and a symbol of wealth and social status. Over the past decade, global economic conditions, currency fluctuations, inflation rates, and geopolitical events have contributed to frequent changes in gold prices.

Gold price volatility refers to the rapid and unpredictable changes in the price of gold over time. These fluctuations influence consumers' purchasing decisions, especially regarding the timing and quantity of gold purchases. Consumers often adjust their buying patterns depending on price movements, economic expectations, and personal financial situations.

In India, gold purchases are strongly associated with cultural traditions such as weddings and festivals like Akshaya Tritiya and Diwali. Despite the rise of alternative investment options such as mutual funds and digital gold, physical gold continues to remain highly preferred. This study aims to examine how fluctuations in gold prices influence consumer buying behaviour and identify the factors that motivate consumers to purchase physical gold.

2. Review of Literature

The academic study of gold demand spans both microeconomic consumer theory and macroeconomic investment frameworks. To establish a robust foundation for this study, existing literature can be categorized into three core areas:

2.1 The Safe Haven and Hedging Hypothesis

Baur and Lucey (2010) established foundational empirical frameworks proving that gold serves as both a hedge and a safe haven asset within international financial markets. Their study distinguishes between a "hedge" (an asset that is uncorrelated or negatively correlated with another asset on average) and a "safe haven" (an asset that is negatively correlated with another asset during times of market stress or extreme economic downturns). This financial property heavily shapes consumer logic; during inflationary periods, capital market crashes, or geopolitical instability, capital is systematically redirected into physical gold to safeguard household wealth.

2.2 Global Trends and Domestic Consumption

According to the World Gold Council Reports (2023), global gold demand trends consistently point to developing nations, particularly India and China, as primary drivers of physical gold consumption. The reports emphasize that while institutional demand in Western economies is heavily driven by Exchange Traded Funds (ETFs) and central bank reserves, Eastern markets are predominantly fueled by consumer jewelry, bars, and coins. The structural demand in these regions exhibits deep resilience, remaining robust even during high-tariff or restrictive regulatory environments.

2.3 Socio-Cultural Integration and Investment Motives

Mishra (2021) explored consumer behaviour towards gold investments in India, highlighting that the purchasing process is rarely an isolated financial decision. Instead, it is a socio-cultural phenomenon. Indian households view gold as a dual-purpose vehicle: it provides immediate psychological utility through cultural adornment during weddings and religious festivals while serving as an informal insurance policy that can be liquidated or pawned during emergencies.

Furthermore, Sharma (2022) focused explicitly on how price fluctuations alter these dynamics, noting that while long-term cultural demand remains constant, short-term price volatility acts as a behavioral trigger. Sudden spikes in price introduce a "wait-and-watch" approach among retail buyers, causing temporary contractions in jewelry sales and shifting focus toward smaller denomination bars or coins.

3. Research Methodology

3.1 Statement of the Problem

While the cultural affinity for gold in India is well-documented, the modern market environment introduces unprecedented price volatility driven by global macroeconomic integration, exchange rate fluctuations, and monetary policies. Retail consumers are constantly exposed to rapid daily changes in gold valuations. This raises crucial questions: *How do everyday consumers react to this volatility? Does high pricing destroy demand, or does it merely delay it? What operational and marketing adjustments must the retail jewelry sector make to accommodate these behavioral shifts?*

This study addresses these questions by assessing empirical retail consumer insights.

3.2 Objectives of the Study

1. To examine the buying behaviour of consumers towards physical gold.
2. To analyse the awareness level of consumers regarding gold price changes.
3. To study the impact of gold price volatility on purchase decisions.
4. To identify the factors influencing consumer gold purchases using ranking analysis.
5. To suggest measures for better consumer decision-making and market strategies.

3.3 Scope of the Study

The scope of this study is specifically limited to consumer buying patterns regarding physical gold, which explicitly includes jewelry, minted coins, and bullion bars. The behavioral analysis centers on tracking consumer awareness, individual income dependencies, pricing elasticity, and traditional obligations. The practical insights generated from this research are strategically designed to benefit jewelry retailers, financial advisors, market analysts, and sector-specific policymakers.

3.4 Data Source and Sampling Design

- 1. Data Source:** The primary foundation of this study consists of primary data collected using a structured questionnaire distributed directly to retail consumers. Secondary data from sources like the Reserve Bank of India (RBI) and the World Gold Council were leveraged for contextual grounding.
- 2. Sample Size:** A sample of 100 respondents was selected for data collection.
- 3. Sampling Technique:** Convenience sampling was applied across a diversified demographic pool to capture variations in gender, age, income, and occupational backgrounds.
- 4. Statistical Tools:** Data analysis was completed using percentage analysis and the weighted ranking method.

4. Data Analysis and Interpretation

4.1 Demographic Profile: Gender Distribution

To evaluate the demographic representation within our sample, gender distribution was tracked to assess purchasing agency.

Gender	Respondents	Percentage
Male	48	48
Female	50	50
Others	2	2
Total	100	100

Interpretation: The demographic data reveals a balanced distribution, with a slight majority of female respondents (50%). In the Indian retail market, women traditionally act as key decision-makers and primary consumers for gold jewelry purchases, making their prominent representation vital for behavioral accuracy.

4.2 Occupational Profile of Respondents

Occupation heavily dictates disposable income levels, surplus savings, and overall capacity for physical gold accumulation.

Occupation	Respondents	Percentage
Salaried	42	42
Business	20	20
Students	18	18
Professionals	12	12
Others	8	8
TOTAL	100	100

Interpretation: The salaried class represents the largest segment of the sample at 42%. This indicates that stable, fixed-income groups are highly active participants in the physical gold market. For these individuals, systematic savings are regularly converted into gold assets as a low-risk wealth preservation mechanism.

4.3 Frequency of Gold Purchases

Tracking purchase frequency helps distinguish between regular retail investors and occasion-driven consumers.

Frequency	Respondents	Percentage
Frequently	15	15
Occasionally	55	55
Rarely	30	30
TOTAL	100	100

Interpretation: A strong majority of 55% of respondents purchase physical gold "Occasionally". This directly aligns with the cultural tendency to tie gold transactions to specific life milestones, such as weddings, family celebrations, or major religious festivals. Only 15% purchase gold frequently, likely representing high-net-worth individuals or active retail investors.

4.4 Primary Purpose of Purchasing Gold

Understanding the core motivations behind gold accumulation helps clarify whether consumers prioritize consumption or investment.

Purpose	Respondents	Percentage
Jewelry	40	40
Investment	30	30
Marriage	20	20
Gifting	10	10
TOTAL	100	100

Interpretation: Adornment and consumer usage remain the dominant drivers, with 40% of respondents buying gold explicitly as jewelry. However, pure investment motives follow closely at 30%, proving that even when purchased in wearable forms, consumers maintain a strong awareness of the asset's underlying financial value.

4.5 Ranking Analysis of Influential Buying Factors

To determine which variables, exert the greatest leverage over the final purchase decision, a weighted ranking analysis was conducted across seven parameters.

Factors Influencing Purchase	Aggregate Rank Score	Final Assigned Rank
Price	420	I
Tradition	395	II
Investment Returns	370	III
Family Influence	350	IV
Fund Availability	330	V
Discount/Exchange Offers	310	VI
Status Symbol	280	VII

Interpretation: The ranking analysis clearly establishes Price (Score: 420) as the primary determinant governing gold transactions. Despite deep-rooted cultural ties—as evidenced by Tradition securing Rank II (Score: 395)—current market rates ultimately dictate the execution of a purchase. Investment Returns ranks third (Score: 370), showing that consumers continuously evaluate future capital appreciation potential when buying physical gold.

5. Findings and Discussion

- **Occasion-Driven Patterns:** The majority of consumers engage with the physical gold market occasionally rather than maintaining a continuous, programmatic buying schedule.

Purchases remain heavily linked to traditional milestones.

- **Product Form Preference:** Wearable jewelry remains the dominant and preferred form of gold accumulation over pure bullion bars or coins.
- **Information Channels:** Retail consumers actively track current gold prices. Their primary sources of daily market data are mass media news channels, online financial trackers, and direct price displays at local jewelry retail outlets.
- **Perceptions of Volatility:** A large proportion of the surveyed consumer base perceives the gold market as highly volatile and unpredictable over short horizons.
- **Impact on Strategy:** Price volatility introduces distinct changes in buying habits. Fluctuations directly impact both the timing of the transaction and the overall quantity purchased.
- **Dominant Factors:** Ranking frameworks mathematically confirm that market spot price, cultural tradition, and expected investment returns are the top three pillars shaping consumer intent.
- **Reaction to Price Hikes:** When gold prices spike sharply, consumers generally adopt a risk-averse "wait-and-watch" stance, delaying purchases to wait for a price drop rather than buying immediately.
- **Reaction to Price Drops:** Conversely, when market corrections cause prices to drop, consumers demonstrate buying readiness, purchasing larger quantities to maximize the value of their capital.

6. Suggestions and Recommendations

6.1 For Jewellery Retailers

- **Price Transparency & Real-time Alerts:** Given that price is the primary factor influencing purchases, retailers should introduce automated SMS or mobile app alerts to notify registered customers of favorable price drops. Transparent, itemized breakdowns of daily gold rates, making charges, and taxes build trust and reduce transaction hesitation.

- **Value-Added Promotions during Peak Pricing:** To mitigate demand drops during high-price regimes, businesses should offer flexible exchange programs, zero-deduction old-gold buybacks, and discounted making charges.

6.2 For Consumers and Investors

- **Systematic Gold Accumulation Plans:** Rather than attempting to time a highly volatile market, consumers should consider structured monthly gold saving schemes offered by reputable jewelers or digital platforms. This averages out purchase costs and reduces the risk of buying at peak prices.
- **Portfolio Diversification:** While physical gold offers unmatched psychological security and cultural utility, consumers should broaden their asset bases. Diversifying into digital gold, sovereign gold bonds (SGBs), or equity mutual funds can improve long-term yields while protecting liquidity.

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7. Conclusion

Physical gold retains an enduring role in both the financial planning and cultural traditions of consumers. However, modern market volatility has introduced a more calculative, price-sensitive retail environment. While traditional obligations during weddings and festivals keep baseline demand stable, rapid price movements directly dictate the exact timing and volume of transactions.

Ultimately, consumer buying behaviour towards physical gold is shaped by a continuous balance between price awareness, personal income constraints, and cultural needs. To succeed in this shifting landscape, jewelry retailers must adopt transparent, consumer-centric pricing models, while buyers should use structured accumulation strategies to protect themselves from sudden market shocks.

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