

**Latest Issue**

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**ABSTRACTS**

**Role of Growth and Inequality in Explaining  
Changes in Poverty in Pakistan**

TALAT ANWAR

Changes in the extent of poverty are affected not only by growth in the mean income but also by changes in the distribution of income. The effect of these two factors can be separately measured by decomposing the total change in poverty. In this context, this paper uses new tools to quantify relative contribution of growth and inequality using the latest available household survey data. The findings of this paper suggest that the role of inequality remained important in mitigating the adverse effects of growth on poverty during the first period, 1998-99 to 2001-02. Alternatively, the role of growth has been fundamental in reducing absolute poverty in the second period, 2001-02 to 2004-05. Poverty would have been further reduced, had the distribution not worsened during this period. The policy implication is that while pursuit of growth as a strategy is important for poverty reduction in Pakistan, the contribution of redistribution in favour of the poor should not be ignored if the effect of growth on poverty reduction is to be enhanced. Thus, the major challenge is to pursue a poverty reduction strategy that is based on growth with redistribution.

**Exchange Rate Pass-through to Consumer Prices in  
Pakistan: Does Misalignment Matter?**

ATIF ALI JAFFRI

This study investigates the impact of exchange rate changes on consumer prices (commonly known as exchange rate pass-through (ERPT)) in Pakistan for the period 1995M1 to 2009M3. The study estimates short-run and long-run ERPT in Pakistan while taking into account the existing real exchange rate misalignment (RERM). The results suggest that the ERPT to consumer price inflation in Pakistan is very low (close to zero).

The impact of the previous periods' misalignment on inflation is found significant in managed exchange rate regime. However, the overall sample misalignment does not affect inflation. The impact of foreign inflation on domestic inflation is positive and statistically significant.

## **Taylor Rule and the Macroeconomic Performance in Pakistan**

WASIM SHAHID MALIK and ATHER MAQSOOD AHMED

A near-consensus position in modern macroeconomics is that policy rules have greater advantage over discretion in improving economic performance. For developing countries in particular, simple instrument rules appear to be feasible options as prerequisites since more sophisticated targeting rules are generally lacking. Using Pakistan's data, this study has attempted to estimate the Taylor rule and use it as monetary policy strategy to simulate the economy. Our results indicate that the State Bank of Pakistan (SBP) has not been following the Taylor rule. In fact, the actual policy has been an extreme deviation from it. On the other hand, counterfactual simulation confirms that macroeconomic performance could have been better in terms of stability of inflation and output, had the Taylor rule been adopted as monetary policy strategy. The study also establishes that further gains are possible if the parameter values of the rule are slightly modified.

## **Environmental Efficiency Analysis of Basmati Rice Production in Punjab, Pakistan: Implications for Sustainable Agricultural Development**

ABEDULLAH, SHAHZAD KOUSER and KHALID MUSHTAQ

The intensive use of chemicals worked as a catalyst to shift the production frontier but the most critical factor of maintaining a clean environment was totally ignored. The present study attempts to estimate the environmental efficiency of rice production by employing the translog stochastic production frontier approach. The data are collected from five major Basmati rice growing districts (Gujranwala, Sheikupura, Sialkot, Hafizabad, and Jhang) of Punjab in 2006. Chemical weedicides and nitrogen are treated as environmentally detrimental inputs. The mean technical efficiency index is sufficiently high (89 percent) but the environmental efficiency index of chemical weedicides alone is 14 percent while the joint environmental efficiency index of chemical weedicides and nitrogen is 24 percent implying that joint environmental efficiency is higher than chemical weedicide alone. It indicates that substantial reduction (86 percent) in chemical weedicide use is possible with higher level of productivity. Moreover, it is likely to contribute a considerable decrease in environmental pollution which is expected to enhance the performance of agriculture labour. The reduction in chemical weedicides will save Rs 297 per acre and Rs 1307.3 million over all from the rice crop in Punjab,

improving the profitability of rice growing farmers by the same proportion. Empirical analysis indicates that reduction in environmental pollution together with higher level of profitability in rice production is achievable.