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THE PAKISTAN DEVELOPMENT REVIEW
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ABSTRACTS

1. **Maryam Bint-e-Ajaz and Nazima Ellahi.** Public-Private Investment and Economic Growth in Pakistan: An Empirical Analysis. 51:4, 61–78.

This study has attempted to evaluate the inter-relationship among the three macro-variables, namely public and private investment and GDP growth both in the long and short run with reference to Pakistan economy for the period of 1972–2011. We have tried to pinpoint the important determinants of each variable, using the standard econometric techniques. Long run relationship between the variables is specified by using method proposed by Johansen and Juselius (1990). Based on the results of the long-run cointegration parameters short run error correction model is used to estimate the short run relationship between the variables. As expected, the GDP growth has a strong positive relationship with public and private investment and there is a two-way causality between GDP and investment. The public investment is affected by the level of GDP, inflation and exchange rates. Likewise, private investment is affected by inflation and exchange rates, the lending rate, besides the level of GDP. The general negative theoretical relationship between public and private investment is confirmed in the context of Pakistan economy, i.e. public investment exerts a “crowding-out” effect on private investment at large. This is because public investment has primarily been financed in the past through internal and external borrowing. The government revenues collected through taxation has little contribution in promoting public investment.

JEL Classification: E2, 04

Keywords: Public Investment, Economic Growth

2. **Rifaqat Ali and Usman Mustafa.** External Debt Accumulation and Its Impact on Economic Growth in Pakistan. 51:4, 79–96.

This study analysed the long run and short run impact of external debt on economic growth in Pakistan for the period 1970-2010 using annual data, collected from different sources. This study used the extended production function that measured Gross National Product (GNP) as a function of annual education expenditure (Proxy of human capital), capital, labour force and external debt as a percentage of GDP. Long run estimation employed a cointegration analysis while short run analysis relied on Error Correction Method (ECM).

The estimated results indicated the external debt exerts significant negative impact on economic growth, this confirmed the existences of debt overhang in Pakistan in both long and short run. Labour force affect GNP negatively in long run and short run as well, but in short run impact is insignificant. However, human capital and capital contribute positively and significantly to GNP in long run and short run as well, yet the positive impact of capital exceed the impact human capital in long run and vice versa in short run. The coefficient of Error Correction Term (ECT) suggested that any deviation from the long term inequality is corrected by 33 percent over the each year. Significant ECT is further proof of the existence of stable long run relationship.

JEL Classification: H63, O43, E01, C22

Keywords: External Debt, Economic Growth, Gross National Product (GNP), Cointegration

- 3. Unbreen Qayyum and Adnan Haider.** Foreign Aid, External Debt and Economic Growth Nexus in Low-Income Countries: The Role of Institutional Quality. 51:4, 97–116.

Institutional quality plays an important role in promoting economic development of a nation. Foreign capital can work efficiently and its productivity will be high if the quality of institution is good. This study attempts to investigate empirically the impact of external debt and foreign aid on economic growth by taking into consideration the quality of institution in terms of effective governance. Annual data for the period 1984 to 2010 has been taken from a panel of sixty developing countries. Empirical results indicate that the good governance and foreign aid affect the economic growth positively while that of external debt has a negative impact. These results are robust for various alternative specifications.

JEL Classification: E02, E20, F34, F35, F43

Keywords: Foreign Aid, External Debt, Economic Growth, Governance

- 4. Muhammad Ali Qasim and Mahmood Khalid.** Fiscal Responsibility: A Critical Analysis of FRDL (2005) Pakistan. 51:4, 117–129.

The economic future of a nation largely depends on the way fiscal responsibility is practiced. Fiscal responsibility is critical for a nation to remain prosperous and stronger in future. At least for the last two decades poor/weak fiscal responsibility is being practiced in Pakistan as the fiscal deficit for the last two decades remained more than five percent of GDP. The persistent fiscal deficit resulted in the increased debt burden both in terms of internal as well as external debt and interest payments. In 2001-02 Finance Minister, Mr Shaukat Aziz stated that there is a need to promulgate fiscal responsibility law in the country. The law was promulgated as “Fiscal Responsibility and Debt Management Act-2005”. The objective of the paper is to critically evaluate FRDL-2005, with reference to four major clauses/conditions laid down for restoration of fiscal discipline and also see the extent of implementation of these conditions. The analysis indicates that the act is prepared more to meet the constitutional provision rather than the economic realities of the country and for that reasons no targets has been set for reduction in fiscal deficit which is a source of concern for fiscal policy-maker. The provincial governments are not

in the purview of the act. The targets laid for debt reduction are not realistic. The act did not put any restriction on federal government borrowing from the SBP. The paper suggests reformulation of FRDL-2005 on the economic realities of the country and also fiscal responsibility laws for the provincial governments so as to achieve the target of “rest rotation of fiscal discipline in the country”.

5. **Ramizur Rehman, Mudassar Hasan, and Inayat Ullah Mangla and Naheed Sultana.** Economic Reforms, Corporate Governance and Dividend Policy in Sectoral Economic Growth in Pakistan. 51:4, 133–146.

The paper attempts to establish a relationship economic reforms, dividend policy and economic growth. Broadly, the study tries to develop a link between economic reforms and economic growth. Further narrowing down, we split economic reforms into monetary, fiscal and governance reforms and find their influence on sectoral growth specifically focusing on corporate governance reforms. In Pakistan, as we have gone through phenomenon economic and structural changes during the last decade so the study has been conducted over this period i.e., 1998 through 2008. Data was collected from State Bank of Pakistan, Pakistan Bureau of Statistics, and Annual Reports of Companies. This study covers two major sectors of Pakistan, Large Scale Manufacturing Sector and Financial Sector. We used two-stage regression analysis to avoid the possible endogenous relationship among two growth variable including GDP growth and sectoral economic growth. The results show that all three factors, economic reforms, corporate governance, and dividend policy have significant impact on sectoral economic growth of Large Scale Manufacturing and Financial Sector. In economic reforms variables, GDP growth and interest rates have positive and negative impact respectively on sectoral economic growth while FDI has no impact. This shows low interest rates and high economic growth contribute in sectoral economic growth. Further, the results show that board independence has an important role in the progress and growth of LSM and FS whereas board size showed no linkage with sectoral growth. Finally, dividend policy has positive impact on sectoral economic growth. Further studies can explore the relationship to the other sectors.

Keywords: Dividend Policy, Corporate Governance, Economic Reforms, Economic Growth, Sectoral Growth

6. **Samina Sabir and Khushbakht Zahid.** Macroeconomic Policies and Business Cycle: The Role of Institutions in Selected SAARC Countries. 51:4, 147–160.

Based on the sample of selected SAARC countries over the period 1984-2009, we assess two stylised facts regarding interaction between monetary, fiscal policies and institutions. First, monetary policy conducted in SAARC countries to control inflation and to smooth output gap is pro-cyclical due to poor quality of institutions. Second, fiscal policy is pro-cyclical in SAARC low income countries. We introduce interaction term between GDP gap and institution quality measured by ICRG index. We use simple and dynamic panel data techniques to estimate the reaction functions.

We find that policies conducted in SAARC countries are pro-cyclical due to poor quality institutions. Therefore, these policies cause further distortion in business cyclical fluctuation.

JEL Classification: E02, E32, E52, E62

Keywords: Fiscal Policy, Monetary Policy, Business Cycle, Institutions

7. **Fahad Abdullah, Attaullah Shah, and Safi Ullah Khan.** Firm Performance and the Nature of Agency Problems in Insiders-controlled Firms: Evidence from Pakistan. 51:4, 161–183.

This paper studies the impact of corporate ownership structure on firm performance. This paper tests whether policy intervention with respect to blockholding and higher managerial ownership is required in Pakistan. We hypothesise that market places expropriation premium on stocks of such firms where large insiders are present. In addition to poor market performance, such firms are expected to show poor accounting performance due to various forms of expropriations. These hypotheses are tested on a sample of 183 firms listed at the Karachi Stock Exchange over the period 2003–2008 with the help of OLS and 2SLS regressions while controlling for other explanatory variables that have been identified in the literature. The results indicate that both the market- and accounting-based measures of performance are negatively related to the ownership percentage of incumbent managers. Among the control variables, Tobin's Q increases with growth opportunities and tangibility of assets, whereas it decreases with firm size, market risk, firm-specific risk, and ownership percentage of institutional shareholders.

JEL Classification: G32

Keywords: Ownership Structure, Firm Performance, Large Insiders, Tobin's Q, Pakistan

8. **Muhammad Arshad Khan and Ayaz Ahmed.** Modelling Trade, Investment, Growth and Liberalisation: Case Study of Pakistan. 51:4, 187–208.

This study develops an econometric model to examine the impact of tariffs liberalisation on industrial productivity and economic growth in Pakistan. The model is estimated using annual data over the period 1972–2011. To measure trade reform policy, an index for trade liberalisation is constructed. We apply channel analysis to quantify the direct and indirect impacts of trade liberalisation on the industrial productivity in Pakistan. Our result suggests that trade liberalisation promotes industrial productivity through its favourable effects on private industrial investment, manufactured exports and capital goods imports. The direct contribution of trade liberalisation to industrial productivity is 30.49 percent, while the indirect contributions of trade liberalisation through its impacts on private industrial investment, manufactured exports and capital goods imports are 31.71 percent, 18.9 percent and 18.9 percent respectively. In overall term, the impact of liberalisation on industrial productivity is 0.164 percent which implies that an increase in trade liberalisation increases industrial productivity by 0.164 percent. The impact of trade liberalisation on manufactured exports and capital goods imports is 0.18 and 0.17 percent respectively, which implies that technological capability of exports and imports occupies 17–18 percent of the overall channels impact on industrial productivity.

Keywords: Trade, Industrial Productivity, Trade Liberalisation Index, Pakistan

9. **Shahbaz Nasir.** Modern Services Exports from Emerging Countries—Perspectives and Opportunities. 51:4, 209–226.

Advancements in information and communications technologies (ICTs) have increased the possibilities for trade in modern services and many emerging economies are participating increasingly in these new trade activities. This paper explains the sources of increasing modern services exports from emerging countries, and the opportunities for future growth. The paper reviews selected theories and empirical work in the trade literature to explain the underlying reasons for these increasing exports. The paper finds that emerging countries are well placed for modern services exports due to the increasing services outsourcing that offers substantial benefits to importing economies, and the comparative advantage of emerging countries, which has been facilitated by declining trade costs and advancements in ICTs. Nonetheless, only few developing countries could fully exploit these opportunities.

JEL Classification: F10, O14

Keywords: Modern Services, Exports, Comparative Advantage, Outsourcing

10. **Hamna Ahmed and Farah Said.** Determinants of Export Performance in the Wake of the Global Financial Crisis: Evidence from South Asia. 51:4, 227–243.

This study has been undertaken with a two-fold objective: Firstly, to analyse the impact of the global financial crisis on manufacturing and service exports in four South Asian countries. Secondly, to understand the determinants of export performance in a sample of exporting firms from Pakistan, India, Bangladesh and Sri Lanka. The main emphasis in this part of the analysis will be on various dimensions of the business environment in which firms operate such as the degree of competition from informal activity, prevalence of corruption and the general efficiency of the logistics industry in the economy. The study uses data provided by the Interim Enterprise Survey conducted in 2009-10. Estimation is done in three stages—first on the sample of Pakistani firms, then the pooled sample (containing firms from India, Bangladesh and Sri Lanka) and finally the pooled sub-sample (containing Indian and Sri Lankan firms only). Results reveal that for the pooled sample, the impact of the crisis on export growth becomes insignificant by 2011 which could possibly suggest that firms have recovered from the impact of the crisis by the time these firms were interviewed for the Interim Survey data collection in 2010. On the other hand for Pakistan, crisis continues to have a significant negative impact on expected export growth even after two years since the onset of the crisis—suggesting that financial markets in Pakistan are more underdeveloped relative to comparator countries of South Asia. In addition size is consistently found to be an important determinant of export growth for Pakistani firms. This implies that government policies aimed at promoting organic growth of small firms may be useful in increasing future export growth.

JEL Classifications: F14, G01

Keywords: Export Growth, South Asia, Global Financial Crisis

- 11. Asha Gul and Mahreen Mahmud.** Remittances from Saudi Arabia: A Community Phenomenon. 51:4, 245–258.

The remittances sent home by overseas Pakistani workers have more than quadrupled in the last eight years to more than \$13.186 billion by June 2012, with expatriates in Saudi Arabia sending more remittances to Pakistan than from anywhere else in the world. This study uses a sample of 542 Saudi migrant households from nine high migration districts in 2009 to ascertain the factors that encourage Saudi migrants to send back remittances. The study analyses individual, household and community determinants of remittances in a combined framework. The findings of the study strongly establish the education of the migrant as the most important factor affecting the level of remittances to Pakistan from Saudi Arabia. In addition, the study provides a novel and interesting insight into the role of community level variables in explaining differential remittance flows to the districts analysed. This indicates that the role of the government is not just limited to designing and implementing migration and remittance policies, but has a stronger role to play in influencing the flow of remittances to Pakistan by influencing the level of economic development across districts.

JEL Classifications: F24, O53

Keywords: Remittances, Pakistan, Saudi Arabia, Community Characteristics

- 12. Rehana Siddiqui, Ghulam Samad, Muhammad Nasir and Hafiz Hanzla Jalil.** The Impact of Climate Change on Major Agricultural Crops: Evidence from Punjab, Pakistan. 51:4, 261–276.

This study is underscoring the impact of climate change on the major agricultural crops in Punjab, Pakistan. These crops are Wheat, Rice, Cotton and Sugarcane. This is the first study of its nature to study the impact of scientific information's on the stages of development of each crop in order to assess the impact of climate change on each stage of the crops. This detail scientific information's obtained from Pakistan Agricultural Research Council (PARC), Islamabad, Cotton Research Institute, Faisalabad, Rice Research Institute, Kala Shah Kaku. Using panel data of districts of Punjab for the period 1980–2008, Fixed Effect Model is estimated. The findings show that both in short and in long term the impact of climate change on wheat productivity is non-negative, while the impact of climate change is negative for Rice, Cotton and Sugarcane.

- 13. Zohaib Saeed, Usman Mustafa, Hafsa Hina, and Shazia Saeed.** Agricultural Productivity Impact of a Mini-Dam: A Case Study of Ziarat, Balochistan. 51:4, 277–287.

Water scarcity in Balochistan is more severe as of Pakistan. Ground water level is depleting day by day. One of the solutions for such problem is to store water through mini-dams. This study is conducted to find an impact of mini-dam on agricultural

productivity in Ziarat, taking apple as the main crop. Primary data of 80 households are collected from two villages (one having a dam and other without having a dam) namely Kawas and Verchoom through stratified random sampling. Cobb-Douglas production function is utilised to form the production function for apple and estimated by using OLS technique. Nine explanatory variables are used for finding the impact over apple yield i.e. farm size, farmer education, farming experience, tree age, fertiliser, irrigation number, pruning and dummy (for capturing the importance of dam). Results revealed that all variables are found significant except farming experience, pruning and tree age. It is concluded that mini-dam played an important role in increasing agricultural productivity, livelihood of the community and contribute positively in improving their living standard.

JEL Classification: C12, C13, Q15, Q16, Q25, Q29

Keywords: Mini-dam, Agricultural Productivity, Stratified Random Sampling, Cobb-Douglas Production Function, Ordinary Least Squares (OLS) Technique

- 14. Junaid Alam Memon and Usman Mustafa.** Emerging Issues in The Implementation of Irrigation and Drainage Sector Reforms in Sindh, Pakistan. 51:4, 289–301.

This study analysed the implementation of institutional reforms seeking a paradigm shift from the state to a farmer-managed irrigation and drainage system in Sindh Province of Pakistan. The required information was taken from a one-page profile of 354 Farmer Organisations (FOs) and in-depth interviews with the key officials and farmers. The findings revealed that out of 14 Area Water Boards (AWBs) and 1,400 FOs, only three AWBs and 354 FOs could be formed and transferred the management responsibility of their respective channels. All of the farmers, having land irrigated by an irrigation channel, were by default general body members of the respective FO. The average landholding size of the largest and smallest landholder in a FO was 98 and 3 hectares in NC-AWB, 84 and 2.5 hectares in GC-AWB and 176 and 5 hectares in LBC-AWB. The unequal land distribution caused differential social and political power of the farmers in the agrarian society and thereby had the implications for the participatory irrigation management (PIM). Although, the available information did not permit a rigorous analysis of the large landholders' capture of FO Management Committees (MCs), one could comprehend the lower bounds of such tendency. It was gathered that the large landholders could capture the MCs of at least 40 percent of the FOs in NC-AWB, 36 percent of the FOs in GC-AWB and 33 percent of the FOs in LBC-AWB. The majority of the large landholders were holding MCs as Chairmen, Vice Chairmen, General Secretaries, Treasurers and a few as just Members. The smallest landholders in MCs were found mostly as Members. Finally, despite having a substantial number of female landholders in FO general bodies, their participation in MCs was negligible across all AWBs. The study concludes that the overall progress in implementation of the reforms was slow and unsatisfactory both in quantitative and qualitative terms. Nonetheless, it could be taken as an opportunity to learn from the past experiments as the basis for determining the future course of irrigation and drainage reforms and management in the country.

- 15. Ajaz Ahmed and Aneel Salman.** Clean Development Mechanism (CDM) Business in Pakistan: Perceptions and Realities. 51:4, 303–317.

Kyoto Protocol of the United Nations Framework Convention on Climate Change (UNFCCC) is a milestone towards global carbon mitigation efforts which resulted in the establishment of carbon markets. Pakistan has ratified Kyoto Protocol in 1997 and implemented it in 2005. It contributes towards carbon mitigation in the form of Clean Development Mechanism (CDM). This market based mechanism is instituted to facilitate the greenhouse gases lessening through carbon trading. Present study is a policy paper and intends to investigate the status of CDM business (carbon trading) in Pakistan. Specifically paper covers the policy related issues of CDM in the light of existing practices, business created by carbon trading, obstacles in optimising the benefits, and loopholes in CDM policy at national level. Analysis is based on the empirical investigation of CDM business in Pakistan in the backdrop of its progress in developing region (Annex-II). Study has revealed very interesting insights to assist the CDM related policy in Pakistan. Moreover, it highlights the main issues related to CDM business. Analysis proposes few policy measures to eradicate the problems and boost the carbon trading in Pakistan.

JEL Classification: Q53, Q54, Q56, Q58

Keywords: UNFCCC, Kyoto Protocol, Clean Development Mechanism (CDM), Carbon Trading, Climate Change, Mitigation, Certified Emission Reductions (CERs), Designated National Authority (DNA)

- 16. Anjum Nasim.** Agricultural Income Taxation: Estimation of the Revenue Potential in Punjab. 51:4, 321–338.

This paper attempts to quantify the potential income tax revenue from crop farming and land rental in Punjab, the province which accounts for over 65 percent of the production of most major crops in Pakistan. Our estimates suggest that in the tax year 2010, the tax revenue potential from crop farming and land rental from an agricultural income tax, at rates comparable with federal income tax, was Rs 55–75 billion. Using a more limited data set to project taxable income for the financial year 2012-13 and using the tax rates applicable under the Finance Act 2012, the tax potential for the tax year 2013 is estimated to be about Rs 30 billion. The paper concludes broadly that under the current income tax rates, the perception about the agricultural income tax potential is exaggerated, but the revenue potential is still very large relative to the actual tax collection by the provinces. Taxing this source of income at rates applicable to similar incomes in other sectors of the economy will not only supplement the finances of the provincial governments, but will also have an important symbolic value in terms of fairness and equity.

JEL Classification: H2, O23

Keywords: Agriculture Tax, Pakistan Agriculture

- 17. Muhammad Ismail and Fazal Husain.** Fiscal Discretion and Its Impact on Pakistan Economy. 51:4, 339–364.

This paper studies the discretionary fiscal policy, its size and particularly the impact of discretionary government spending on output, employment level and inflation over the period of 39 years from 1971-72 to 2009-10. The discretionary fiscal policy is identified through the residual term (based on a fiscal reaction function), political system and market structure. Antonio Fatás and Ilian Mihov (2003) model is amended by including employment level and inflation for quantitative estimates of discretionary policy then this discretion is regressed against output, employment level and inflation variation. The paper finds the presence of fiscal discretion but this discretion does not influence the output, employment and inflation significantly. It attempts to highlight the succinct merits and demerits of the debated discretionary fiscal policy for Pakistan economy. Lastly it suggests a political and economically suitable policy framework to be made available to public policy-makers for discretionary policy conduct so that desired influence on economic variables could be achieved.

Keywords: Discretionary Fiscal Policy, Output, Employment, Market Structure

- 18. Attiya Y. Javid and Umaima Arif.** Analysis of Revenue Potential and Revenue Effort in Developing Asian Countries. 51:4, 365–378.

This study analyses fiscal performance across developing Asian countries over the period 1984 to 2010. The results indicate that per capita GDP, agriculture value addition, trade openness, debt and population growth are significant determinants of revenue to GDP ratio across countries. Among the institutional factors, control of corruption, law and order and bureaucracy quality has a significantly positive effect on revenue performance. The fiscal effort indices obtained for Asian countries show that while several ASEAN countries are performing well above their potential, some South Asian economies fall short of their revenue potential. An overall decline in revenue effort is found in nineties, however in eighties and again in twenties there is improvement in revenue performance. The results suggest that there is need of good policy measures such as broadening the tax base and improving the institutional quality to address this issue. The architect of revenue reforms must be country specific that requires broad investigation of the country's revenue capacity, revenue performance, and institutional structure.

JEL Classification: H20, E62, O23

Keywords: Revenue Potential, Fiscal Effort, Institution Quality, Asian Countries, Panel Data

- 19. Syed Ammad Ali, Hasan Raza and Muhammad Umair Yousuf.** The Role of Fiscal Policy in Human Development: The Pakistan's Perspective. 51:4, 381–396.

Economic and human development is the ultimate goal of every government. The objective of this study is to investigate the role of fiscal policy in the human development of the country. The novelty of this study is that here we directly measure the effect of government expenditures on Human development by using Human Development Index. This study employs the autoregressive distributed lags (ARDL) bounds testing approach of cointegration on different macroeconomic variables for Pakistan from 1972 to 2010 to explore the impact of government expenditure and the political regime on the welfare of

the people in the country. The results show that increase in per capita income and education expenditure have positive effect and current expenditure has negative impact on the human development. The political regime of the democratic governments has a negative effect on human development. The alarming condition of negative relation of current expenditure needs attention of the policy-makers for reducing corruption in the public spending to gain the maximum benefits for the human welfare in Pakistan.

JEL Classification: E62, H52, H53, I25

Keywords: Public Expenditures, Fiscal Policy, Human Development, Education Expenditures

- 20. Syeda Rabab Mudakkar and Jamshed Y. Uppal.** Risk Management in the Financial Services Sector—Applicability and Performance of VaR Models in Pakistan. 51:4, 399–417.

Sound risk management practices by financial institution are critical to the stability of the institutions and to the sustainability of economic growth. We evaluate market risk based on the Value-at-Risk (VaR) approach for the KSE100 index return series over the period January 2001–June 2012. We estimate the conditional quantiles of the loss distribution under different distributional assumptions. Our back-testing results show that the procedure based on the Extreme Value Theory (EVT) performs better than methods which ignore the heavy tails of the innovations or the heteroskedasticity in returns. Analysis of Pre- and Post-Global Financial Crisis suggests that EVT based VaR measures which incorporate market dynamics may be helpful in managing market risk.

JEL Classification: G10, G17, C16

Keywords: Value at Risk, GARCH Models, Extreme Value Theory, Back-testing, Global Financial Crisis

- 21. Muhammad Nawaz.** The Impact of Exchange Rate on Output Level: Bounds Testing Approach for Pakistan. 51:4, 419–434.

Currency depreciation has been an influential instrument to boost-up the net export of the developing economies that face the strict conditions of international donors along with elevated trade deficit. The eventual intention behind this channel is to achieve the improved current account status that result in higher output level. But the output growth may be dwindling in long-run that may not allow the traditional channel to work. This study examines the given analysis by utilising the annual data set over the period 1972-2010 for output, nominal exchange rate and price level along with different control variables in case of Pakistan. The findings based on Bound-testing approach to autoregressive distributive lag model (ARDL) indicates that traditional theories do not work in long-run and currency depreciation may lead to reduction in output while the short-run Error-Correction Model (ECM) results robustly support to the traditional theories of open economy macroeconomics in which currency depreciation increases the output level. The study explores the new dimension of research both for policy-maker and international donors working in developing countries, particularly in South Asian region.

JEL Classification: C23, F41

Keywords: Exchange Rate, Output Level, Bound-testing Approach, Economic Growth, Crowding-out

- 22. Syed Zulfiqar Ali Shah, Zafar Moeen Nasir, and Muhammad Naeem.** Can Common Stocks Provide Hedge against Inflation? Evidence from SAARC Countries. 51:4, 435–448.

Economists and financial analysts have always wondered whether or not investment in common stocks can provide hedge against inflation. In this paper we empirically tested this relationship between stock returns and inflation rate to assess the extent, if any, to which investment in common stocks provides a hedge against inflation in SAARC countries. Monthly data was used from period 1993 to 2011, employing ADF and PP test for unit root testing. By applying the ARDL bound testing approach we found that all countries included in the sample show a long run relationship between stock returns and inflation. We also applied ECM test which is significant in our result. It was also tested whether the relationship that exists between the two is a long term relationship or merely short term one. The findings were somewhat mixed.

JEL Classification: C20, E31

Keywords: Stock Return, Inflation

- 23. Habib-Ur-Rahman and Hasan M. Mohsin.** Momentum Effect: Empirical Evidence from Karachi Stock Exchange. 51:4, 449–462.

The objective of this study is to analyse the momentum effect in Karachi Stock Exchange. The study constructed 16 momentum strategies by following equal weighted, full rebalancing and Decile techniques. We used stock prices of 300 companies listed on Karachi Stock Exchange from 1999 to 2007. The Returns of zero-cost momentum portfolio were positive only in 1 out of 16 strategies; and a decreasing trend in losses reported in 15 strategies was observed, so analysis was extended to “Long Period Analysis”. Here we find some evidence of momentum effect which remained significant even after changing the sample. The evidence of momentum effect in Karachi Stock Exchange an emerging market stands distinct in the literature.

Keywords: Momentum Effect, Stock Returns, Zero-cost Momentum Portfolio, Winner Stock, Looser Stock.

- 24. Ashfaque H. Khan and Umer Khalid.** Consumption Patterns of Male and Female Headed Households in Pakistan: Evidence from PSLM 2007-08. 51:4, 465–478.

This study empirically tests for the homogeneity of household consumption patterns of male headed households (MHHs) and female headed households (FHHs) across Pakistan as well as explore the urban-rural variations within each set of households, using recent household survey data from PSLM 2007-08. The results indicate that consumption patterns are not homogeneous across male and female headed households at the national level and also exhibit variations across the urban/rural divide within the country. FHHs spend proportionately more on education, housing, fuel and lighting, clothing and footwear and household effects while having lower average

spending on food and drinks and transport and communications, compared to their male headed counterparts. The analysis of consumption behaviour of MHHs and FHHs by expenditure quintiles shows that the Engel's Law is validated as share of household expenditures on food and drinks declines with improvement in the economic status for both set of households. It is moreover seen that FHHs have comparatively higher budgetary shares for education and healthcare across all expenditure quintiles compared to the MHHs. In terms of marginal expenditure shares, MHHs have highest spending at the margin on housing, durables and food and drinks, while FHHs' marginal expenditures are highest for durables, followed by housing and food and drinks. It is further observed that FHHs have a higher marginal spending on education and durables in comparison to their male counterparts, with this results being consistent in the urban-rural areas as well.

25. M. Tariq Majeed. Poverty Consequences of Globalisation in OIC Countries: A Comparative Analysis. 51:4,479–492.

This study examines the impact of globalisation on cross-country poverty using a new comparable panel data set for developing countries over a long period 1970-2008. The main findings of the study are: First, openness to trade exerts adverse effects on poverty in all sample developing countries while FDI helps in reducing poverty only in OIC countries. Second, growth elasticity of poverty is negative and significant in all countries; however, the growth elasticity of poverty is high in the case of OIC countries. Third, inflation adversely affects poverty in all sample countries. Fourth and finally, the role of government is insignificant in OIC countries while it is robustly significant with a negative sign in Non-OIC countries. Thus, government spending helps in reducing poverty only in Non-OIC countries. The overall results of this study indicate that globalisation accentuates not ameliorates poverty.

JEL Classification: F21, F41 and J24

Keywords: Globalisation, Poverty, Inequality, FDI, OIC Countries

26. Taseer Salahuddin and Asad Zaman. Multidimensional Poverty Measurement in Pakistan: Time Series Trends and Breakdown. 51:4, 493–504.

Traditionally poverty has been understood only as 'lack of income'. However, with the passage of time it was realised that poverty is a complex and multidimensional phenomenon. Mahboob-ul-Haq (1973) and Sen (1975) argued that development is about enlarging human capabilities, rather than only acquisition of wealth. The purpose of this research is to argue that poverty being multidimensional in nature, cannot be properly measured by unidimensional (income or calorie based) poverty measures. This study has utilised Alkire-Foster Multidimensional (AFM) poverty measure (2007) for building time-series trends of poverty in Pakistan from 1998-2006. The results show that multidimensional poverty measures provide more elaborate and precise picture of poverty. Instead of an absolute poverty line, the AFM measure depicts a spectrum of poverty levels from border-line cases to absolutely poor people. Furthermore, time-series trends of deprivations in multiple dimensions have been built at provincial level in Pakistan. This study demonstrates that people of Pakistan are highly deprived in education and health. Education has shown worst deterioration in past decade and a half.

Unfortunately, it is this dimension, which is the foundation for capabilities development in the long run.

JEL Classification: O11

Keywords: Poverty, Poverty Measurement, Multidimensional Poverty, Capabilities Approach, Alkire-Foster Measure

27. **M. Ali Kemal and Ahmed Waqar Qasim.** Precise Estimates of the Unrecorded Economy. 51:4, 505–516.

Informal activities are present in almost all the sectors of the Pakistan economy, whether it is agriculture, manufacturing, construction, finance, transport or services. National accounts covered some of the informal activities in the GDP estimates, however, considerable size is not recorded. Several approaches are available in the literature to estimate the size of the unrecorded/undocumented/underground economy. Most popular among these approaches is monetary approach. Other approaches are labour market approach, MIMIC approach, Electricity approach, fiscal approach, etc. However, all these approaches have number of problems among which the first and foremost is that they do not give the actual estimates of the unrecorded economy instead those estimates are used as trend estimates of the unrecorded economy based on different assumptions. In this paper we are estimating size of the unrecorded economy using a new approach. We call it “KQ” (Kemal and Qasim) approach or discrepancy approach. Our idea in this paper is to calculate total private consumption from the household survey for the total population and adjust it for trade misinvoicing and calculate the estimates of the GDP which is then compared with the GDP estimates reported in the National Accounts (at current prices). The difference between the two is the size of the unrecorded economy. PSLM 2007-08 is used to calculate total private consumption and Mahmood (2012) is used for misinvoicing of exports and imports. Our estimates show that the unrecorded economy of Pakistan was 91 percent of the recorded economy in 2007-08.

28. **Rizwal ul Haq.** Life Satisfaction and Basic Needs among Elderly People in Pakistan: Evidence from the PSES Data. 51:4, 519–541.

29. **Nadia Tahir and Pervez Tahir.** Is Informal Sector Employment Marginal to Formal Sector Growth? 51:4, 543–564.

This paper discusses existing scenario of informal sector employment and socio-economic challenges faced by informal worker in search of “decent work.” We supplement the Labour Force Surveys (LFS) with a socioeconomic survey in five towns of Lahore to profile home-based workers, street vendors, and waste pickers. LFS is used to estimate the percentage distribution of employed labour force in the informal sector by applying dynamic panel data model. Random effect and Arellano and Bond (1991) GMM style dynamic panel model outperforms other experiments in terms of consistency of estimator and efficiency gains. The results show that wages in formal sector and overall GDP growth are countercyclical and manufacturing sector growth is procyclical with informal employment. There is unobserved gender heterogeneity and no latent time

effect. It is the only work opportunity for the low skilled. Informal sector continues to be marginal to the formal sector but a dynamic subset exists in the manufacturing sector.

JEL Classification: C32, J21, J81, J82, O17

Keywords: Informal Sector, Employment, Wages, Women, Panel Data

- 30. Nooreen Mujahid and Naem uz Zafar.** Economic Growth-Female Labour Force Participation Nexus: An Empirical Evidence for Pakistan. 51:4, 565–586.

Economic literature shows significant attention towards the role played by Female labour force in the economic development of nations. The structural changes of economies from agriculture to industrial and services sector reduce the female labour force participation in case of developing nations like Pakistan. This study investigates the nexus between economic growth and female labour force participation for Pakistan's economy over the period of 1980-2010. In this respect, an attempt is made to find out the U-shaped curve between Female labour force and economic development by employing ARDL technique and Granger causality. The results show long run and U-shaped association between economic development and female labour force participation in case of Pakistan. Our study shows that an increase in education and dynamics of economic activity increases the female labour force participation in later stage of development.

JEL Classification: J21, J11, J16, J01

Keywords: Female Labour Force, Economic Growth, Development, Pakistan

- 31. Farhat Rasool, Ahmed Gulzar, and Shaheen Naseer.** Drivers of Entrepreneurship: Linking with Economic Growth and Employment Generation (A Panel Data Analysis). 51:4, 587–606.

The need for entrepreneurship for economic development has always been crucial in the history of successful nations and developed economies because entrepreneurs are the leaders who invent innovative ideas that give spark to economic activities. Entrepreneurship is a key determinant of sustainable growth in modern times. Mostly jobs are produced by small businesses started by entrepreneurial mind persons, many of them set up large companies. Entrepreneurship is frequently expressed in terms of higher self esteem, to exercise creative freedoms, and an overall greater sense of control over their own lives. Many economists and educators believe that these types of experienced entrepreneurs foster the robust entrepreneurial culture that exploit personal and communal economic and social success at sub-national, national, and international level. A strand of literature explains different categories of entrepreneurship, which are of paramount importance in explaining the economic growth, employment and population. The task of this study is to identify those factors along with the role of education, Research and Development activities which significantly explain the entrepreneurial potential and skills and at the second stage, to examine the impact of those entrepreneurial skills on economic growth and employment. To complete the task, micro panel data approach with different economic models and econometric estimation techniques (i.e. Stepwise Least Square with Forward Selection method and Pooled Least

Square without random and fixed effects) is used. The panel data includes the observations on eight upper middle and lower middle income countries over the period ranging from 2005 to 2011.

JEL Classifications: D31, E23, E24, J21, J28, J31, L26, M13,
O10, O11, O17, O30, O34,

Keywords: Drivers of Entrepreneurship, Economic Growth, Employment Generation, Institutions, Government Stability

- 34. Adnan Haider, Musleh ud Din, and Ejaz Ghani.** Monetary Policy, Informality and Business Cycle Fluctuations in a Developing Economy Vulnerable to External Shocks. 51:4, 609–682.

This paper develops an open economy dynamic stochastic general equilibrium (DSGE) model based on New-Keynesian micro-foundations. Alongside standard features of emerging economies, such as a combination of producer and local currency pricing for exporters, foreign capital inflow in terms of foreign direct investment and oil imports, this model also incorporates informal labour and production sectors. This customisation intensifies the exposure of a developing economy to internal and external shocks in a manner consistent with the stylised facts of Business Cycle Fluctuations. We then focus on optimal monetary policy analysis by evaluating alternative interest rate rules and calibrate the model using data from Pakistan economy. The learning and determinacy analysis suggest monetary authority in developing economies to follow Taylor principle in large and to put some weight on exchange rate fluctuations even if there is relatively less inertia in the setting of policy interest rate.

JEL Classifications: E26, E32, E35, E37

Keywords: Monetary Policy, Informal Economy, Business Cycles, DSGE

- 33. Muhammad Shahzad Ashraf and Hasan M. Mohsin.** Monetary Policy Restriction and Dividend Behaviour of Pakistani Firms: An Empirical Analysis. 51:4, 683–693.

Studies upon impact of macro variables on firm's dividend policy are very limited and specifically rare in Pakistan perspective. Main purpose of this research paper is to observe impact of restricted monetary policy on dividend behaviour of Pakistani firms. During restricted monetary policy, cost of external funds increases and firms prefer to utilise internal funds leading to reduction in dividend payout. Behaviour of 100 listed firms, selected purposefully, has been observed for the period from 2001 to 2009 by using Lintner' modified model. During the research period of nine years, monetary policy has been gone through both loose and tight phases. Proposed model is dynamic one as lagged dependent variable has been used as explanatory variable. Results of the all three estimations reveal almost same results. First lagged dividend has been proved to be most deterministic factor of dividend policy followed by current earnings. Monetary policy and lagged dividends interactive variables provide mixed results. First interactive variable has negative

coefficients in all three, fixed effect, random effects and GMM, models but with insignificant p-values. Second monetary policy interactive variable has positive coefficients with significant values in random effects and GMM model. Firms seem to follow relatively stable dividend policies with lower adjustment factor. Monetary policy has not been observed as significant determinant of dividend policy of Pakistani firms according to dynamic GMM model.

- 34. Zubaria Andlib, Azra Khan, and Ihtsham Ul Haq.** The Coordination of Fiscal and Monetary Policies in Pakistan: An Empirical Analysis 1980-2011. 51:4, 695–704.

The role of macroeconomic policies is very important for the achievement of a stable path in the economy. There are two major groups of policies, fiscal side policies which mainly focus to regulate aggregate demand in the economy and monetary side policies which are mainly responsible to stabilise prices in the economy. But the objectives and measures taken for the achievement of the goals of the two sides are often conflict with each other, so there is a need for coordination between two policies to achieve the set objective. The study focuses on the behaviour of monetary and fiscal policies integration in Pakistan for the time period 1980 to 2011. It finds that there is a weak coordination between monetary and fiscal authorities. We can infer that fiscal policy considerably dominate the monetary policy even State Bank of Pakistan (SBP) is enjoying sufficient amount of independence.

JEL Classification: E42, E52

Keywords: Fiscal and Monetary Policy, Policy Coordination