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ABSTRACTS

Capital Inflows, Inflation, and the Exchange Rate Volatility: An Investigation for Linear and Nonlinear Causal Linkages

ABDUL RASHID and FAZAL HUSAIN

This paper empirically examines the effect of foreign capital inflows on domestic price levels, monetary expansion, and the exchange rate volatility for Pakistan using linear and nonlinear causality tests. The key message emerging from the analysis is that there is a significant inflationary impact of capital inflows, in particular during the period of surges in capital inflows. Specifically, we find evidence of a significant nonlinear Granger causality running from capital inflows to the change in domestic prices. We also show that domestic prices are nonlinearly caused (in Granger sense) by the growth of domestic debt and money supply-to-GDP ratio. Our results, however, suggest that the market interest rate and the nominal exchange rate do not have significant relationships with domestic prices. The findings suggest that there is a need to manage the capital inflows in such a way that they should neither create an *inflationary pressure* in the economy nor fuel the *exchange rate volatility*.

JEL Classification: C22, C32, F21, F31, F32
Keywords: Capital Inflows, Inflationary Pressures, the Exchange Rate Volatility, Monetary Expansion, Nonlinear Dynamics

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Fiscal Decentralisation, Democratic Institutions and Inflation

NASIR IQBAL

This study examines the role of democratic institutions in an attempt to explain the relationship between fiscal decentralisation and inflation. The empirical analysis is based on time series data over 1972–2010 for Pakistan using the GMM estimation procedure. Three different measures of fiscal decentralisation are used in order to capture multidimensionality. The major findings of the study suggest that expenditure decentralisation has a negative impact on inflation if accompanied by democratic institutions. Revenue decentralisation, however, has a negative impact on inflation even in the absence of institutions, though institutions accentuate this effect. The role of institutions, therefore, is important in realising the benefits of fiscal decentralisation. Composite decentralisation has a negative and significant impact on inflation. This implies that expenditure decentralisation becomes effective when it is complemented with revenue decentralisation. Intuitively, provincial governments become more responsive when their expenditure needs are met with their own revenues.

JEL Classification: E31, H11, H72
Keywords: Fiscal Decentralisation, Inflation, Institutions, Pakistan

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Economics of Property Crime Rate in Punjab

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This study intends to ascertain the impact of socio-economic, demographic and deterrent variables and the effect of technical criminal know-how and past criminal experience on property crime rate. The property crime equation comprises of the following independent variables: population density, unemployment rate, literacy rate, police strength and number of police proclaimed offenders in a society. The property crime equation has been estimated by using a time-series data set for Punjab from 1978 to 2012. We have applied Johansen cointegration approach to test the long run relationship among the variables. Empirical findings suggest that police strength has a deterrent effect while past criminal experience enhances property crime rate in Punjab. The study finds population density has a significant positive relationship while education has a significant negative relationship with property crime rate. Further we also find a negative relationship between unemployment and property crime which is supported by the concept of 'consensus of doubt' in the discipline of crime and economics.

JEL Classification: D6

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Money, the Stock Market and the Macroeconomy: A Theoretical Analysis

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The finance-growth nexus has become a significant issue in recent macroeconomic modelling and the centre of attention of policy makers. Over the past few decades equity markets have experienced phenomenal growth which has proved to be a major determinant of capital flow to emerging market economies. Naturally, one wants to know how development of equity markets influences the real sector and produces macroeconomic outcomes. In this paper we construct an open economy, structuralist model to examine the short-run and long- run effects of both policy-induced and exogenous shocks on output, the dynamics of stock market valuation and adjustment in monetary base. The model shows that devaluation or capital inflow will boost the economy, while fiscal expansion has deleterious consequences for stock market valuation and investment.

JEL Classifications: G01, G12, F32, F36
Keywords: Tobin's q, Effective Demand, Devaluation

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