

- Thesis Title: **“Long Run and Short Run Effects of Electricity Prices on Inflation in Pakistan: An Aggregate and Disaggregate Analysis”**

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### **ABSTRACT**

In this study we examine the effect of electricity prices on inflation at aggregate and disaggregate level in case of Pakistan. In this study we take aggregate electricity prices and check its impact on overall inflation, food, non food and core inflation in Pakistan and then take sectoral electricity prices (Industrial, Commercial, Agricultural and Domestic) and check its impact on overall inflation, food, non food and core inflation. Augmented Dickey Fuller (1979), Zivot and Andrews(1992) unit root test with structural break and Johansen Maximum Likelihood method of Cointegration(1988) are used to test the unit root, unit root with structural break and to find out the long run and short run relationship between the variables by taking the data from 1971 to 2013 in case of Pakistan. This study shows the mix effect of electricity prices on inflation. As at aggregate level the electricity prices effect the overall inflation, food and non-food inflation positively but insignificantly in the long run and have no impact in the short run. But in the case of core inflation, electricity prices have positive and significant impact both in the long and short run. But at the sectoral level of electricity prices we have found interesting results. At disaggregate level the domestic electricity prices effect the overall inflation, food and non-food inflation negatively in the long run as well as in the short run. But it has positive impact on core inflation in the long run but has insignificant impact. The industrial sector electricity prices effect the overall inflation, food and non-food inflation negatively in the long run but positively in the short run. But in the short run the increase in the industrial electrical prices have also a great impact on inflation, food and non-food inflation. But industrial electricity prices effect the core inflation both in the short run as well as in the long run positively. The commercial and agricultural electricity prices affect all types of inflation positively both in the long run as well as in the short run. So overall impact of electricity prices on all types of inflation is mixed as positive and negative but the dominant impact of electricity prices on inflation is positive both in the long as well as in the short run. And we found that the most dominant effect of increasing in the electricity prices at aggregate and disaggregate level is on the core inflation.