

## Acknowledgement

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## Research Thesis

Impact of Monetary Policy on Islamic Banking Profit Rates: A Comparative Study Between  
Islamic Banks and Conventional Banks.

## Abstract

In Pakistan there is dual modes of banking system exists .operational and Islamic banking being asset based must not influenced by monetary policy and its indicators. In many countries the research shows that Islamic banking profit rates have positive relationship with central bank interest/discount rate similarly like conventional banks, Because of this large number of scholars and lay man people think that Islamic banking functions are not properly implemented with true letter and spirit.

This examined both Islamic and conventional banks of Islamic republic of Pakistan by using and taking monthly time series data from 2012 to 2018. The study has applied descriptive statistics, correlation analysis, unit root tests ARDL model and granger causality to check the mutual relationship exists between Islamic Banks profit rate and discount rate of SBP. Similarly relationship between convention banks interest rate with SBP discount rate is examined.

By using ARDL model and granger causality analysis it has revealed that there is positive long run relationship between Islamic bank profit rate and state bank discount rate and the short term adjustment do not corrected in long run. The study further state that conventional bank interest rate has also a positive long run relationship with SBP interest rate. The short term shocks corrected back with 0.14% speed of adjustment in long run towards equilibrium level. So, the study has investigates and propose that the long run mutual relationship exists between discount rate and Islamic banking profits as well as with conventional banking interest rate.

Key Words: Islamic Banking profit rate(IBPR), SBP discount rate, Conventional banking interest rate, ARDL, Granger Causality.

## Contents

|  |    |
|--|----|
| Acknowledgement .....  | 1  |
| Abstract .....   | 2  |
| Chapter 1: INTRODUCTION .....  | 5  |
| 1.1 Brief Introduction:.....   | 5  |
| 1.2 Theoretical Findings .....   | 7  |
| 1.3 Significance of study: .....   | 9  |
| 1.4 Problem Statement:.....  | 9  |
| 1.5 Research Questions:.....   | 10 |
| 1.6 Research objectives:.....  | 10 |
| Chapter 2: Literature Review .....   | 11 |
| 2.1 Overview of topic: .....   | 11 |
| 2.2 Relevant Past Research:.....   | 11 |
| 2.3 Hypotheses development: .....  | 18 |
| Chapter 3: Research Methodology .....  | 20 |
| 3.1 Data collection, Selection of Sample: .....                              | 20 |
| 3.2 Sources of Data: .....   | 21 |
| 3.3 Measurement of Variables: .....  | 21 |
| 3.4 Research Techniques:.....  | 22 |
| Chapter 4: Data Analysis, test Results and Discussion.....                   | 23 |
| Table-01: Descriptive statistics of Data .....                               | 24 |
| Table-2- Correlation Matrix between dependent and independent variables..... | 25 |
| Table-3- ADF and PP Tests results of variables .....                         | 26 |
| Table-4- ARDL Bound Test for IBPR .....                                      | 27 |
| Table-5- ARDL model with ECM for IBPR.....                                   | 28 |
| Table-6- Graph of Stability test for ARDL model for IBPR.....                | 28 |
| Table-7- Serial correlation LM test for ARDL model for IBPR .....            | 29 |
| Table-8- Heteroskedasticity test for ARDL model for IBPR.....                | 30 |
| Table-9- ARDL Bound Test for CBIR .....                                      | 31 |
| Table-10- ARDL model with ECM for CBIR.....                                  | 31 |
| Table-11- Graph of Stability test for ARDL model for CBIR.....               | 32 |

|   |           |
|---|-----------|
| <b>Table-12- Serial correlation LM test for ARDL model for CBIR .....</b> | <b>33</b> |
| <b>Table-13- Granger Causality Test for IBPR.....</b>                     | <b>33</b> |
| <b>Table-14- Granger Causality Test for CBIR.....</b>                     | <b>34</b> |
| <b>Chapter 5: Conclusion and Summary .....</b>                            | <b>34</b> |
| <b>References: .....</b>  | <b>37</b> |