

Macroeconomic Multiples, Balance of Trade & Exchange Rate: Empirical Investigation into the Pakistani Stock Exchange



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Department of Management Studies

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Dedication

I dedicate this thesis to my beloved father.

Acknowledgement

In preparing this thesis, I was in contact with my thesis supervisor Senior Assistant Professor Dr. Muhammad Anees Khan. I wish to express my sincere appreciation to my supervisor for encouragement, guidance, critics and friendship. I am very thankful for his continued support and interest, this thesis would not have been the same without his guidance.

Abstract

The purpose of this study is to determine the impact of macroeconomic variables and multiples on Balance of Trade (BOT) and Real Effective Exchange Rate (REER). BOT and REER are the two macroeconomic indicators that have a vital impact on the economy. It is pertinent to determine what factors are responsible for the fluctuation of trade balance (TB) and exchange rate (ER). For this purpose, foreign direct investment (FDI), GDP, Interest Rate (INT) and Inflation (INF) were taken as independent variables as well as BOT and REER were also taken as independent variables to determine their impact on one another. The sample period for this study is from 2000-18. Moreover, this study also tests the existence of Marshall Lerner condition of Pakistan. Data diagnostics tests are carried out to determine the reliability and accuracy of the data. Principal Component Analysis is used to generate macroeconomic multiples which are taken as independent variable to determine its collective impact on dependent variables of the study. Multiple linear regression was carried out to determine the relationship between dependent and independent variables. STATA was used to carry out the diagnostic tests and the regression analysis of the study. The results of the study indicate negative and positive relationship between dependent and independent variables. This will paper will provide recommendations for policy formulation regarding trade, ER and monetary development.

Keywords: Real Effective Exchange Rate, Balance of Trade, PCA, Devaluation, Economic Growth

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List of Abbreviations

Exchange Rate	(ER)
Foreign Direct Investment	(FDI)
Real Effective Exchange Rate	(REER)
Foreign Exchange Rate	(FOREX)
Gross Domestic Product	(GDP)
Interest Rate	(INT)
Inflation	(INF)
Trade Balance	(TB)
Balance of Trade	(BOT)
Balance of Payment	(BOP)
Autoregressive Distributed Lag	(ARDL)
Error Correction Mechanism	(ECM)
Marshall-Lerner	(ML)