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Abstract:

The thesis studies variables which contribute to fluctuation in Pakistani currency. “The study was based on five variables contributing to exchange rate volatility, and their relative importance”. “Annual data for the period 2005-2014 is used, taken from various sources”, World Bank data bank, “Economic Survey of Pakistan” and “International Financial Statistics”.

“The main variables used to check variability are interest rate, inflation as per CPI, Oil prices, imports (percentage of GDP) and exports (percentage of GDP)”. Dependent variable is exchange rate (Y) and independent variable are interest rate (INT), inflation (INF), Oil prices (OP), imports (IMP) and exports (EXP).

Regression model is used to analyze the results then further Pearson correlation test run to find out the relation of all independent variables and dependent variable with each other. At what percentage they contribute their affect on dependent variable (Y). The study shows that main variable that contributes in depreciation in Pakistani currency is inflation. “Next vital factor which bring more variation in exchange rate is oil prices, while interest rate variation lies at third place but the imports and exports did not put any impact on exchange rate variability”. The finding based recommendation about the study is that to focus on fiscal policies and monetary policy first and new energy sources like coal, biogas and LPG to be used to reduce dependence on oil, to reduce the influence of oil prices on the Pakistani currency.