

MACROECONOMIC CONSEQUENCES OF TERRORISM: EVIDENCE FROM PAKISTAN

Abstract

The objective of the study is to examine the macroeconomic consequences of terrorism in the context of Pakistan over a period of 1975 to 2011. The study examines the short run and long run relationship between terrorism and their determinants. Both objectives have been achieved with the sophisticated econometrics techniques including cointegration theory, Granger causality test and variance decomposition, etc. The result reveals that macroeconomic factors cause the terrorism incidence in Pakistan. Macroeconomic indicators i.e., population growth, price level, poverty and political instability have at least one cointegration relationship with terrorism incidence. However, income inequality, unemployment and trade openness have no long-run cointegration with the terrorism incidence in Pakistan. Therefore, we may conclude that, for some how, Pakistan's macroeconomic indicators have significant long-term equilibrium with terrorism incidence. The result of Granger causality indicates that except unemployment, all other macroeconomic indicators have unidirectional causality with terrorism incidence. Unemployment has a bi-directional causality with the terrorism incidence in Pakistan. The results of variance decomposition indicate that there exists statistically significant cointegration among macroeconomic factors and terrorism incidence in Pakistan during 1975–2010. All macroeconomic factors, CPI exerts the largest influence and the influence of unemployment (UN) seems relatively the least whose steady contribution level for terrorism incidence changes while the influence of GDPPC, GINI, POP, POV, PS and TOP follows with steady contribution level.