IMPACT OF EXCHANGE RATE VOLATILITY ON ECONOMIC GROWTH OF PAKISTAN

By

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Abstract

In this dissertation, the impact of Exchange Rate Volatility on Economic Growth of Pakistan is examined. The data used for the purpose is from 1980 to 2016. First of all, the exchange rate volatility is measured with the help of Autoregressive Conditional Heteroscedasticity (ARCH) model. Then after testing the stationarity of the variables under examination, Autoregressive Distributed Lag (ARDL) model is used for analysis. It is found that the exchange rate volatility is negatively affecting the GDP growth of Pakistan, which is in line with the theory. The higher the level of volatility in the exchange rates, the higher will be the negative effect on the GDP. The volatility shows the vulnerability of domestic currency, hence creating a threat of country's exports that ultimately leads to affect the GDP negatively. Interest rate is also found to be negatively affecting the GDP of Pakistan, which is in line with the theory. As increase in the interest rate is a contractionary monetary policy that is meant to reduce economic activity in the country. The other variables, e.g. Human capital (Expenditure on education) and Physical capital (Capital formation) are found to be having significant positive impact on the GDP growth of Pakistan. The findings of the study suggest that exchange rate fluctuations should be controlled in order to have a stable image in the international economy, so that the export of Pakistan may not be suffered.

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