

IMPACT OF MONETARY POLICY AND POLITICAL STABILITY ON ECONOMIC GROWTH, EVIDENCE FROM PAKISTAN



By

NAZIA ALAM

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ABSTRACT

- **Purpose:**

This study is conducted in order to measure the impact of monetary policy and Political Stability on Economic Growth, Evidence from Pakistan.

- **Methodology:**

This research paper is based on the time frame from 1985 to 2016. This study is totally confined to analysis of monetary policy, political stability and its effects on the economic indicators, in Pakistan context. The nature of research is explanatory, and the type of research is Cause & Effect relationship. This research follows a quantitative approach to accomplish the purpose of the descriptive study that effects of monetary policy towards the economic growth of Pakistan. This is Cross sectional study, because data from different authentic website will be collected such as World Bank, Stock Exchange and United Nation's websites. There are six (06) independent variables that are Money Supply, Interest Rate, Inflation, Unemployment Rate, FDI (Foreign Direct Investment) and the political stability. In this research paper, there is one dependent variable that is indicator of the economic growth that's GDP (Gross Domestic Product). The EViews program is used for the analyses and presentation of data.

- **Statistical Tools**

The statistical program used for the analyses and presentation of data in this research is the EViews (Econometric Views). Different tests were applied to test the data. Different tests have been applied in this thesis such as, Stationarity Test (to check the stability or consistency of the data), Cointegration Test (to check the trend and series of the data, or to check the long run relationship of the data), then OLS has been run, in which the regression analysis applied to test the impact of independent variables on the dependent variables. Then variance inflation factor test (VIF), Stability test, Auto-Correlation test have been applied in this study and the Causality Test have applied (to check the cause of dependent variable on the independent variable), and Error Correction Model have been applied to check the trend of the model, short run or long run).

- **Findings:**

The study confirmed the existence of a strong and significant relationship between Monetary Policy & Economic Growth, also relationship Exist In between Political environment and economic growth of Pakistan. However, results of Granger Causality show there is uni-

directional relationship exist in between Monetary Policy, Political Environment and Economic Growth of Pakistan.

• **Practical Implications:**

This study presents aerial view to understand the overall framework in which monetary policy and political environment influence the economic indicators of the economy. The research would be beneficial for the economics and finance students to understand that how money supply acts when interest rate fluctuates. This research will also helpful to determine that how monetary policy influence the economic variables and how political instability can influence on the growth of economy. This research would also be beneficial for financial institutions to decide which projects would be favourable for the investors when interest rate and supply of money enhance. Furthermore, its effective for the banks to develop policies keeping in view the past trends how markets react when interest rate, supply of money, inflation, Unemployment rate, FDI, rates goes up or down.

• **Key words:**

Monetary Policy, Gross Domestic Product, Foreign Direct Investments, Political Environment.

Table of Contents

CHAPTER:(Introduction & Overview)	11
1.1 Introduction.....	11
1.2 Problem Statement	15
1.3 Significance of the Research.....	16
1.4 Objectives of the Study.....	16
1.5 Scope	17
1.6 Hypotheses.....	17
1.7 Research Gap	18
1.8 Research Motivation.....	18
1.9 Organization of the Thesis.....	18
1.10 Conceptual Framework.....	20
CHAPTER:2(Literature Review)	23
2.1 Theories on Monetary Policy.....	23
2.2 Empirical literature review.....	27
CHAPTER 3:(Research Methodology)	40
3.1 Research Design.....	40
3.2 Sources of Data	40
3.3 Sampling Framework	41
3.4 Data Analysis	41
3.5 Statistical Tools.....	41
CHAPTER: 04 . (ANALYSIS OF DATA)	43
4.1 Stationary Test Analysis.....	41
4.2 Cointegration Test Analysis.....	42
4.3 Regression & Variance Inflation Factor Analysis.....	44
4.4 Autocorrelation Test Analysis.....	45
4.5 Stability Test Analysis.....	46

4.6 Error Correction Model.....47

CHAPTER: 05.. : (Conclusion & Recommendations).....55

5.1 Recommendations.....57

5.2 Directions for Future Research.....58

5.3 Limitations.....59

REFERENCES..... 62

Appendix..... 69

LIST OF TABLES

S. No.	Title	Page No.
Figure-1.1	Political Stability	13
Figure-1.2	GDP (Gross Domestic Product) Level	15
Figure-1.3	Conceptual Framework	20