

Exploring the Impact of Macro & Socio Economic Variables on GDP of Pakistan and Psychological Impacts of Inflation on Poor Families

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ABSTRACT

Purpose: This paper explores the impact of macroeconomic variables like interest rate, real exchange rate and role of inflation in GDP of Pakistan. This paper aspires to shed light on the factors all the way during this difficulty occurs for our financial markets and economy. And it observes the socio-economic issue force of inflation on poor families. To call attention to the socio-economic and psychological collision of inflation on poor families.

Theoretical Framework: Researchers explained this study by analyzing the financial system & its performance exaggerated by macroeconomic factor such as inflation.

Findings: The study brings to light that interest rate, exchange rate, and inflation have great impact on GDP. Exchange rate has positive relationship with GDP while inflation and interest rate are negatively related with GDP. Researchers talk about the causes of inflation cost pull and demand pull inflation and how researchers fight the inflation from our economy. Researchers discuss implications of our conclusion for theory and practice.

Practical implications: On the bases of results and its examination it is not compulsory that Government accepts extended monetary policy in order to reduce inflation, as the results point out that inflation has a negative effect on GDP. In case of developing countries like Pakistan, high value of real exchange rate should be upheld because results demonstrate that there is significant and positive impact of exchange rate on GDP. Upper limit for rate of interest should be disconnected in order to make the economy better.

Keywords: GDP (Gross Domestic Product), Inflation, Rate of Interest and Exchange rate. Financial markets

Introduction:

In this study researchers inspected the impact of some significant macroeconomic variables on GDP of Pakistan. GDP, economic health of the country, is inflated by many macroeconomic factors like inflation, national income, interest rate, exchange rate etc. Next chart shows many ups and downs in the GDP rate of Pakistan throughout the ten year period (2001 to 2011). It shows that GDP was certain in 2004-06 perhaps because of economic reforms by the Musharraf government during the year of 2000. In year 2005, Pakistan was called one of the top ten reformers of the world by the World Bank. Separately from many cause at the back this reliable growth in GDP during this period, low rate of inflation is one of them. During this period the rate of inflation was 7.944% to 7.921% which is very low in contrast to the current rate of inflation. But, the growth in GDP could not stay stable and nose-dive in the year 2008-2009 ensuing into high rate of unemployment. The researchers thought a variety of causes at the back of this decrease in the GDP; major issue was again the sharply rising rate of inflation that soared to 13% in 2010.

Accordingly, this study is planned at to discover out the impact of convinced macro-economic factors similar to inflation, interest rate and real exchange rate on GDP of Pakistan and to locate that what steps or measures can be taken by government of Pakistan to increase economic growth (GDP) of the country. Levy-Yeyati and Sturzenegger, F. (2002) (2002) Support was taken from preceding studies to perform in this observe. Work of Obamuyi (2009) It is concluded that interest rate plays very significant role in economic development while viewing the association on one side between the investment and growth, on the other hand among the interest rate and investment. Studies show that among economic development and its determinants, a sole long-run link

exists in which interest rate is also included.

This paper consists of six sections. In section 2 Introduction. In section 3 Research methodology 4 Theoretical framework 5 conclusion & recommendations of the paper are discussed which comprise of explanation of econometric model, measurement of variables used, the data sources, and the econometric technique used for this study.

In this topic crash of macroeconomic factors researchers talk about that financial system deliver us well-organized flow of funds from savings to investment by bringing savers and borrowers jointly by financial markets and financial institutions. Macroeconomic indicators: Then researchers discover the macroeconomic indicators. Macroeconomic indicators compute economic performance and researchers know how it will carry out in future. (Nadeem, 1997) .Researchers appreciates the role of macroeconomic indicator and their importance to financial markets and understands the complexity of contemporary financial markets and their significance to the economy. Then researchers study on macro-econometric model of Pakistan's economy .This model is valuable in sympathetic the arrangement of Pakistan economy as well as forecasting key macroeconomic variables over a short term and medium term. The main microeconomic dial, Inflation is one of the indicators of Macroeconomic indicators "Inflation is continued uphill movement in the wide-ranging level of prices" (nadeem,1997) .Everybody recognize concerning inflation that inflation is bad when inflation rates are enormously high then some horror stories takes place. Through this less long run financial action, capital portion, equity market, liquidity. High inflation rate can reduce the real rate of return and lower rate of return discourage savings. Inflation is negatively linked with real money markets, Mallik & Choudhry (2001) and Bruno & Easterly (1998) Treasury bill rates and real time deposit. When inflation raises the real return on these instruments falls. Inflation is a quiet threat. Inflation creates negative relationship between equity market actions and the growth of banking industry.

Then researchers find the Causes of Inflation in this research paper there are numerous reasons of inflation. They are explained under two main heads.1) Demand pull inflation .2) Cost push inflation, First researchers study on the Demand Pull Inflation , Demand pull inflation occur from great demand for output, When demand for output quicker than supply of goods and services, the prices for goods tend to rise. Example, Demand of Apple and City Here are some factor that lead to amplify in demand.1) Population Rate. As population increases, aggregate demand also increases. And if collective supply is slow than inflation occurs.2) Consumption Trends, People of countries like Pakistan are very fond of overwhelming their resources on plentiful goods. Though this saving rate is low.3) valuable assets of economy has been wasted due to nonproductive expenditures which become the cause of inflation.4) High investment, High investment plays very important role in producing inflation. There is a (gestation) waiting period b/w investment and the time when its result comes to the economy.5) Shortfall financing, When government revenues are less than government expenditures. The surplus of expenses has to be providing by loans both from internal and outside sources. Sometimes shortfall is met by printing more notes. But what on earth the way combating this shortfall it leads inflation .factor that guides to sluggish supply, slow agriculture development.,

Now researchers research on the Cost Push Inflation. Cost push inflation occurs because of higher cost of production .Increases in wages and salary .It creates inflation. When wages and salaries increase, it creates two things. Firstly use on luxury goods secondly cost of production increases. Higher taxes, if government increases the taxes. It has burden on customers. Through these increases, the selling prices of the goods push up the inflationary rate. Material pushes inflation, if there is boost in the prices of some fundamental resources such as gas oil. Which are used directly or indirectly in oil industries? It increases the cost of production and increases general price level.

Researchers desire to manage on the inflation. Remedies of Inflation, major measures through which researchers manage inflation rate are as follows. Is the procedure by which the often targeting a rate of interest control the supply of money by the monetary authority of a country for the purpose of promoting stability and economic growth. (Federal Reserve board, January 3, 2008). Through monetary policy researchers can attain steady economic growth; researchers can steady over prices, Tight Fiscal Policy. It is worried with taxation and government revenues. In order to control demand pull inflation, taxes are raised to that personal not reusable income false and consumption is dispirited. Reducing Non Productive Expenditures, Reduction in Government borrowings ,Population control, Credit control, Control over wages and supply, Rapid development, Rapid Industrialization, Efficient share Of resource, Clear policies. Stages of Inflation: It passes through three stages. In the first stage the increase in price is slow and gradual. In this period it is easier to ensure the inflationary mount in the price of goods and services. But if it is not efficiently monitor in the first stage then it enters the second stage. In second stage inflation become a crucial factor for the government. The prices of goods and services start increasing much more rapidly. It is not possible to eradicate inflation completely but if the government takes efficient steps, it may be likely to avoid a further increase in price level. In the third stage, prices of goods and services show alarming increase and it becomes impossible for the government to control them. Socio-Economic and Psychological impact of Inflation and Price ramble on Poor Families. Inflation as one of the social

monsters has many disadvantages; People become unsure that whether they can earn money or not nowadays which they have to spend tomorrow for buying something; owing to this they will not be able to save and invest their money, cannot earn profit. Which means that they are not able to earn money today then they cannot buy things they will need for tomorrow? Moreover, in international trade, competition among countries has decreased due to this.

High inflation and hyperinflation become the cause to harm the economy, in which money loses its value and people lose self-assurance on money because the worth of saving is abridged. Inflation can get out of control due to increase in prices; people demand high salaries or wages for fulfilling their day to day needs which is called wage-price spiral. Besides, borrowing may also be preferential through the expense of savers as the real value of obtainable debts erodes when the real interest rates are negative. Various dimensions through which researchers analyze socio-economic status of poor families. United Nations organization's Report (2008) refers poor to that person, Hameed (2009) who earns less than one US dollar a day (currently two US dollars) while poverty refers to a situation where a person is not able to uphold a living standard due to insufficient earning by which he is not able to fulfill his mental and physical needs resourcefully and not able to perform activities which are required at the level of society as being a member of society. In the background of present research study; poor is a person whose every day income is Rs. 300 (the amount that is considered not enough to fulfill his or his family's needs). Family to Burgess and Locke quits where people joint by the adoption, blood, or by the bind of marriage constitute a family of mother and father, wife and husband, sister and brother, daughter and son on its own to perform their individual community tasks by communicating and interacting with one other and a familiar way of life is generated that it is a durable relationship of man and woman including or not including children or alone wife or husband with children. Family is the multifunctional of all the institution in society, and is a system of organized social relations connecting workable and dependable ways of meeting fundamental social needs. Social The term social is related to society (Encarta, 2009). Whereas society is a mesh of social relationships in which people connect and perform with one another in groups (Morrison, 2006). In addition, the relations of organisms with others and to their co-survival and the feature of living organisms, irrelevant of whether the interface is intentional or unintentional and irrelevant of whether they are alert of it or not. Economic refers to set of values associated to the manufacturing, distribution and consumption of services good. As researchers, it is associated with both thoughts and actions and these both are extremely set in group way of life and mores of the citizens. (Chaudhary, 1984). the word psychological is defined as a mental process and behavior and, in which physical activities are included that can be heard or seen and as researchers as mental process like thought about prejudice are included cannot be heard or seen while Psychology is the scientific study of behavior and mental process..(Matlin, 1999).

THEORETICAL FRAMEWORK

In this theoretical framework the overall review and the research method is describe that how researchers make this study by analyzing the overall financial system & its performance affected by macroeconomic factor such as inflation. This model indicates the effect of price hike on these major categories like, Structure of price setting process, economic impact, social impacts, psychological impacts, quality variation, and socio-economic impacts. Inflation effect structure of price setting because circulation of money is & Saving are less & overall price of commodities increases, variation in quality of commodities, psychological impact in such a way, if the basic necessities are not fulfill but people buy and most expenditure are on luxurious products. Why such types of behavior of people in Pakistan take places? In this paper researchers have concerned with these entire factor that contributes in price hike & price effect these all. These all factor all noticeable and there should be proper explore & should be proper measure on these.

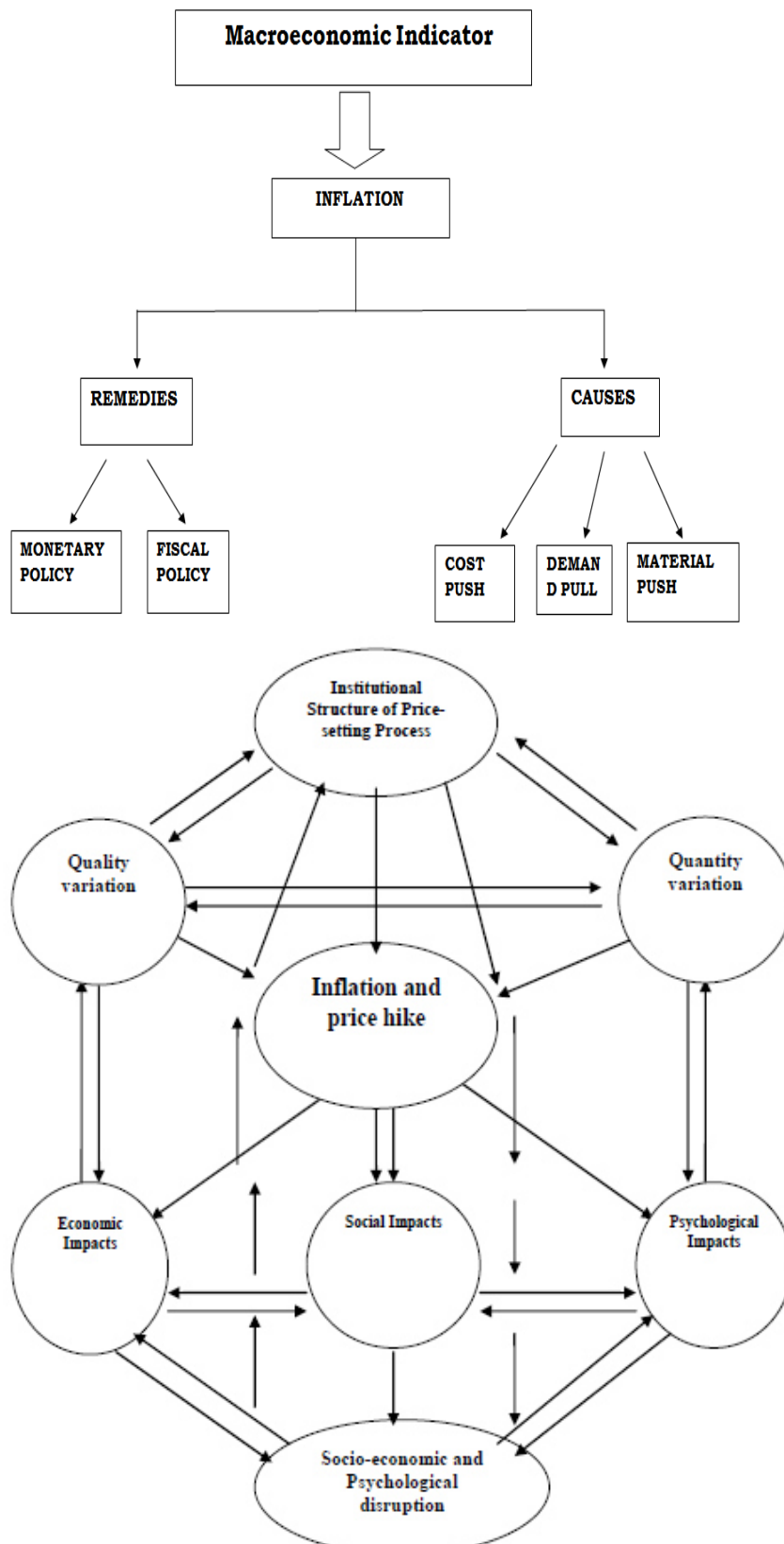


Fig:1 Conceptual Model : The Flux of Inflation and Societal Disruption Mode

CONCLUSION

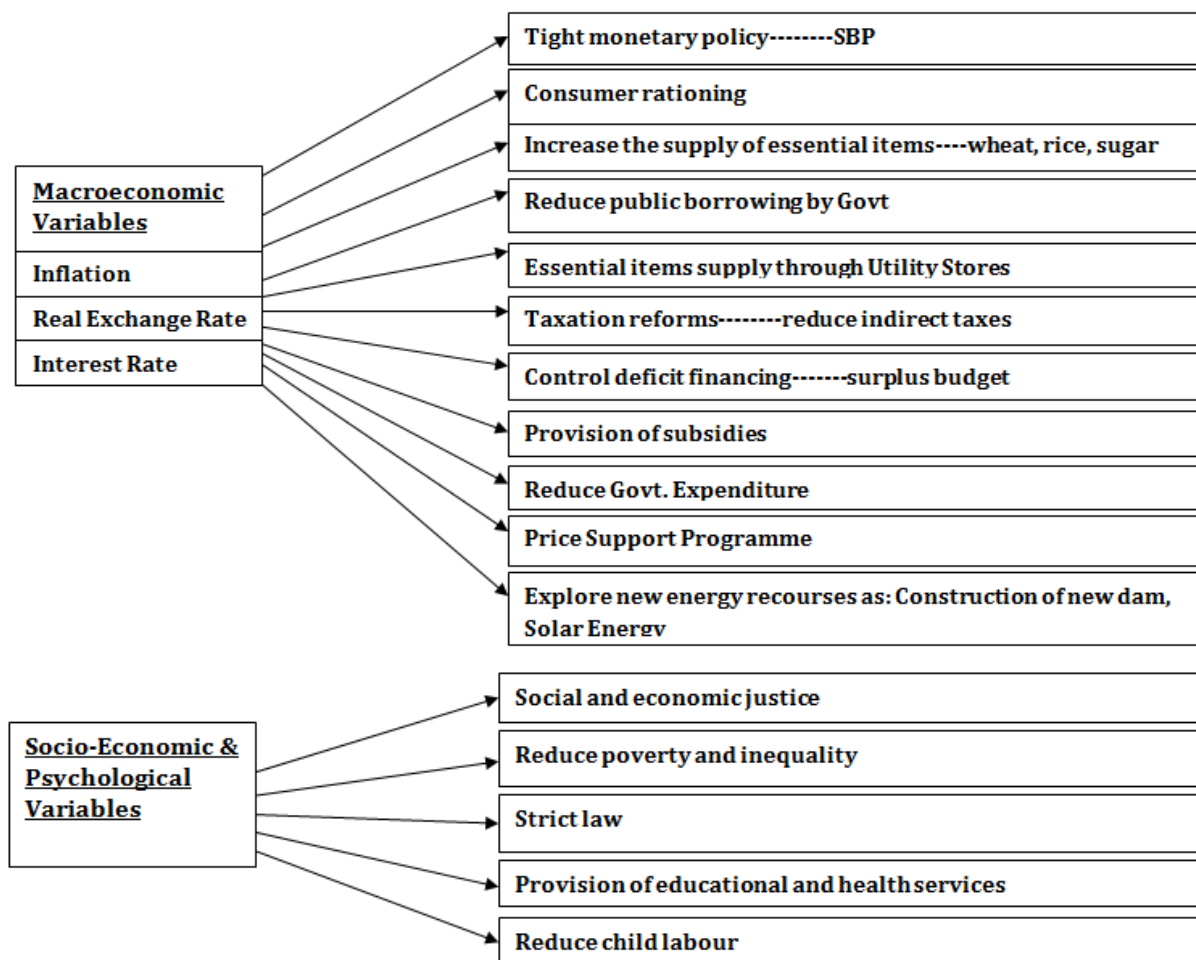
Of all the sizzling social evils; inflation has been regarded as one of the poking matter of concern in the present scenario that has been evidently highlighted by this research study. This research activity highlights that

excessive depression among the victims has been brought, which further leads to creation of violent and aggressive attitude. Furthermore, in the course of psychological consequences of inflation; the suicidal tendencies have been noted as one of the deeply rooted impacts that has frequently been occurred and practiced among the subject victims. Inflation rate in Pakistan is very high. Currently it is about 12.5%. Following are the some remedies to control this problem.

The results indicate the influence of alteration in variables relevant to monetary policy and impact of inflation on real GDP. Transmission in economy is also proved by evidence in results. A big problem of high inflation rate, heavy imports, additional increase in supply of money, and low level of real GDP is faced by developing countries like faced by Pakistan. Unpredictable and diminishing trend is found in economic growth rate. Real exchange rate effect the long-run real GDP of Pakistan. Net export, aggregate demand and flow of foreign financial appear to be influence through the exchange rate. Further, budget shortfall and financial deepness in Pakistan also occur due to real exchange rate with which assumption is also consistent. In-short, the rise of inflation and price hike being havoc in way of its devastating cost is common on the line of economic and psychological, social improvement of the research area where with the passage of time troubles are increasing.

As in literature view discussed that exchange rate is different of each and every country in the world therefore it is obvious that no comprehensible relationship exist between economic growth and rate of exchange. GDP is negatively related with the coefficient of rate of interest. In this study, relationship among economic growth and interest rate is determined. This paper concluded that, a significant and positive relationship exist between the economic growth and exchange rate of Pakistan. The overall research findings come to a unanimous conclusion that inflation is a monster, which is hindering the overall smooth working of the subject society as researchers as a nation with bad impact on future.

Suggestions for Governing Body



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