**PAKISTAN JOURNAL OF APPLIED ECONOMICS**

**PAPERS FOR FORTHCOMING ISSUES**

1. Are forestry and foreigners bounty for macroeconomic performance: A global evidence               by Abida Ramzan and Bilal Mehmood

*Abstract*

Forestry provides economic, social and environmental benefits along with various forest products and services it also offers the platform to economies to develop their industrial and trade base. The link of forestry – economic growth of the countries is intended to be explored in this study. For the empirical analysis, data set of 155 countries is employed for 15 years’ time-period from 1999-2013 and the estimation technique is system GMM for the dynamic panel data model. Empirical results demonstrate that forest resources and tourism are important for the growth of the economies. It is recommended that forest area should be preserved to enjoy its numerous economic and social benefits and to have clean and safe environment.

2. Indirect taxes and economic growth: An empirical analysis in Pakistan

  by Maqbool H. Sial, Shahzad Ahmad and Nisar Ahmad

*Abstract*

The study empirically investigates the relationship between indirect taxes and economic growth in Pakistan. For estimation annual time series data from 1974 to 2010 was used. The main purpose of the research is to find long run and short run relationship in-between indirect taxes and economic growth. Philips Perron and Augmented Dickey fuller unit root tests were used to check the stationarity of every variable in the study. Auto Regressive Distributed Lag (ARDL) bounds testing approach for co-integration (developed in 2001) was applied to estimate the long run and short run relationship among the variables. Indirect taxes have negative and significant effect on economic growth in long run, while its coefficent in short run, is insignificant. Due to one percent increase in indirect taxes, economic growth would decreased by 1.68 percent. ECM coefficient of indirect taxes showed 45 percent speed of adjustment in a year. According to research results it is imperative to decrease the indirect taxes and to increase the direct taxes, if we want to augment economic growth. Currently contribution of direct taxes out of whole tax revenues is only 33 percent and the share of indirect taxes is 63 percent, while it should be reversed if economic growth has to increase.

3. An investigation of the impact of foreign remittances on agricultural development in Pakistan: A time series analysis,

by Asghar Ali, Zahid Saeed, Ali Imran, Khalid Mushtaq, Muhammad Ashfaq & Mehran Hussain

*Abstract*

The present study investigated the impact of foreign remittances from different regions of the world on agricultural development in Pakistan. Segregated time series data of remittances, agricultural GDP, primary school enrollment and gross fixed capital formation in agriculture sector were taken for the period 1972-2012. Co-integration technique was employed to analyze the long-run impact of these variables on agricultural GDP. The coefficients of remittances from Saudi Arabia, UAE, United Kingdom and other Gulf and European countries were found to be significant and positive in the long-run but non-significant in the short-run. The effect of remittances from advanced countries as USA, Canada and Australia showed a negative and significant effect on the agricultural GDP in the long-run but non-significant in the short-run. The variables of primary school enrollment and gross fixed capital formation were also significantly and positively associated with the agricultural GDP growth in the long-un. The findings revealed that remittances played a vital role to meet the needs of the agriculture sector. It is suggested that the government should devise a policy to encourage the migrant’s households in the rural Pakistan to use remittances in productive activities in agriculture sector. Results also suggested that policies should also be devised to promote primary education and increase fixed capital formation in agriculture sector.

4. An attempt to crystalize Black-Box mystery: Institutional quality or constitutional rights are important in policy welfarism for developing nations

by Saima Sarwar and Wasif Siddiqi

 *Abstract*

This study deals with the deeper analysis of the role of domestic institutional framework in policy making process of developing nations.Grossman-Helpman (1994) model of ‘protection for sale’ has been used to extract the extent of welfarism in government decisions related to trade policy i.e. how much government puts weight on the welfare of the society when designing a trade policy. Findings of the study report that it’s not about type of political regime actually rather about types of political institutions under different the constitutional structures i.e. parliamentary or presidential systems which matters in promoting welfarism in government policies. These findings help in drawing this conclusion that not only democracy rather parliamentary natured democracy are welfare-enhancing for developing nations when taking any policy decision. Moreover results also supported that *de jure* (constitutional rules) institutions are playing more imperative role in decision making as compared to *de facto* (governance) institutions.

5.Knowledgement sharing practices on performance: A role of intellectual capitals practices           by Wasimur Rehman and Nabila Asghar

*Abstract*

This study seeks to empirically investigate the relationship of knowledge sharing (KS) practices, intellectual capital (IC) practices and performance within the banking organizations in Pakistan. This study uses the amended instrument and attempts to collectthe data from 810 middle level managers through questionnaire from a sample of 42 banks. Structural equation model (SEM) and confirmatory factor analysis (CFA) were applied to assess the nature of relationship and overall fitness of the measurement models among the constructs. The results of confirmatory factor model reveal that all the indices satisfactorily meet the thresholds which indicatea well fit of the models. Although, results of standardized path coefficient postulates thatKS and ICpractices significantly contributes to banks’ performance, moreover results of standardized path coefficients reveal that human capital, structural capital and relational capital practices partially mediate the relationship between KS driven performance The findings of study support that all the proposed hypotheses are statistically significant (p<0.001) which indicate that IC practices substantially mediate the relationship between KS driven performance, thus corroborating the argument that IC is a valuable strategic resource to leverage the performance based activities.

6. Analysis of food demand patterns in Sindh

  by Khurram Shahzad and Muhammad Nadeem Sarwar

*Abstract*

The study analyses and compares food demand patterns of households from rural and urbanparts ofSindh on the basis of primary data taken from HIES 2010-11 using Linear Expenditure System. The results show thatsubstantial quantities ofmilk, eggs, vegetables, salt, sugar, wheat, and pulses are taken by households in both urban and rural Sindh whereas former adds vegetable oil and later adds fruits to this list. There are visible differences in marginal budget shares and in luxuries, necessities, substitutes and complements. Because of this, it is recommended that separate policies for the two areas should be chalked out.

7. Packaging decision in horticulture sector of Khyber Pakhtunkhwa province of Pakistan                  by Muhammad Shahzad, Ayesha Tahir and Naveed Jehan

*Abstract*

Packaging technology play an important role in the marketing of horticultural produces. In Pakistan, mostly wooden and cardboard boxes are used. This study was undertaken to carry out benefit cost ratio and determine the factors affecting adoption of cardboard carton. Sample of 122 respondents was selected through proportionate random sampling. Benefit Cost Ratio of the two packaging technologies were compared through paired t- test while probit estimates were carried for adoption of cardboard carton. Adopters of cardboard carton obtained price premium of 45 % and BCR of 4.56 as compared to 3.49 of wooden box users. Probit estimates with marginal effects revealed that orchard size, destined market distance and availability in different sizes of the boxes could increase the probability of adoption. Experience and cost were considered to be the significant factors for non adoption of cardboard packaging. In order to increase the adoption of cardboard packaging, it should be modified for mechanical strength, storage environment and be made available in different sizes.

8. The role of infrastructure in promoting the domestics investment in Pakistan

  by Abida Yousaf and Naila Erum

*Abstract*

Infrastructure is an umbrella term for many activities as it plays vital role for the industrial and overall economic activities. The study examines the historical trends of GDP, infrastructure, investment in Pakistan. The study, than, empirically investigates the impact of infrastructure on domestic investment in Pakistan form 1975-2013. The variables included in the study are gross fixed capital formation, telephone lines, length of roads, inflation, GDP and interest rate and applied ARDL model for estimation of empirical results. The results found that the impact of infrastructure on the domestic investment has positive and significant. However, telephone lines variable remains insignificant during long run while it is significant in the short run. The study also finds positive and significant relation between domestic investment and GDP. The impact of interest rate and inflation is negative and significant during short run on domestic investment But, the impact of inflation remains insignificant during long run. The findings suggest that special attention should be paid towards infrastructure along with other variables while formulating investment policies.

9. Impact of trade liberalization on economic growth and poverty in South Asian region

  by Waqar-Un-Nisa, Naeem-ur-Rahman and Aliya H. Khan

*Abstract*

This paper assesses the impact of trade liberalization on economic growth and poverty in South Asian region in the light of the reinforcement of the basic objectives of “General Agreement on Tariffs and Trade” (GATT). For the purpose seven South Asian countries are selected namely Pakistan, Bangladesh, India, Sri Lanka, Maldives, Nepal and Bhutan. The study period has been divided into pre and post liberalization from 1960-1995 and from 1996-2014. Economic growth and poverty equations are separately estimated with Fixed Effect Model on panel data. Results show a significant positive impact of openness of south Asian countries and specifically signifies the role of Bangladesh in case of growth and and India in case of poverty in the region. Gini (income inequality) of individual countries worsens average income growth and poverty situation of South Asia region but specifically highlights a prominent role of Bangladesh and Bhutan in reducing growth while Bhutan and India in raising poverty of the region. Unemployment policies of all South Asian countries, specially of India and Bangladesh worsening the economic growth as well Pakistan and Bhutan worsening poverty situation of the region greatly. During both period economic growth shows a positive impact over poverty of the region. Nepal and Pakistan have a leading role in this context. Results are mostly significant but weak share of the factors emphasizes the adoption of effective pro-poor growth policies along with openness policies according to the specific requirement of the concerned economies.

10. Welfare implications of alternative policy option: Analysis of wheat market in Pakistan                  by Momena Abdur Rehman, Khalid Mushtaq, Abedullah and Faisal Abbas

*Abstract*

The objective of this study is to analyze the impact of the alternative food policy options adopted in the wheat sector in Pakistan on the welfare of consumers, producers, government revenue, and foreign exchange requirements. In order to estimate the consumer and producer surpluses/losses, it requires supply and demand elasticities of wheat and demand elasticity of fertilizer. These elasticities were calculated by estimating supply and demand functions of wheat and demand function of fertilizer using co-integration and error correction techniques. However, partial equilibrium model has been used for welfare policy analysis which indicates that input subsidy gives net return to the society while import and price support generates net losses. Combined policy option generates the highest net return to the society when input subsidy and price support are combined in the ratio of 90 and 10 percent, respectively. Such comparison would help policy makers in making optimal allocations of scarce resources.

11. Economics of globalization: An approach towards inclusive growth for developing nations              by Rukshanda Koser, Saima Sarwar and Wasif Siddiqi

*Abstract*

The study aims to explore the role of various dimensions of globalization i.e. political, economic and social globalization using the time span 1991-2013 in relation to inclusive growth. Using Fixed Effect Model, the results showed that the overall impact of globalization is mix for developing nations i.e. On the one side it is reducing poverty while on the other side it is not proven as the employment-driven-strategy for the economic growth of developing nations. Treating individually the impact of each dimension of globalization on these two measures of inclusiveness, only role of political globalization is being observed consistent and improving both poverty and employment conditions in developing countries suggesting that information flow, personal contacts, cultural proximity and role of embassies for facilitating other nationals to have access into world market is contributing towards inclusive growth. Impact of economic globalization is confusing due to its positive effect on poverty but it is being proved healthier for employment generation. All these findings help to make conclusion that developing nations should not solely depend on this strategy of development rather an amalgam of both localization and globalization should try to be followed.

12. Returns volatility in stock market and performance of banks: Evidence from Pakistan                  by Saiful Rahman, Abdul Rashid and Muhammad Ilyas

*Abstract*

Irregular behavior of stock market affects each sector of economy but financial sector is the most vulnerable. The study attempts to examine the impact of stock market returns’ volatility on the performance of banking sector in Pakistan. Two mail hypotheses are constructed to achieve the objectives of study i.e. (i) There exists a significant relationship between the returns volatility in stock market and banking performance in Pakistan, (ii) Bank size has a significant role in establishing the volatility-performance relationship. Two step GMM system estimator is used to test these hypotheses. The results reveal that the stock market volatility has a significant negative impact on return on equity and return on assets, and bank size has a significant negative impact on the volatility-performance relationship. Specifically, the results suggest that in the time of high volatility, banks’ profitability starts to decline, but this profitability decline is not same for all size of banks. The negative impact of volatility for the larger banks is low.

13. Efficiency analysis of public transport in Lahore

  by Nimra Noor, Bilal Mehmood and Maryam Wasif

*Abstract*

Public transport has been a focus of financial allocations in Pakistan. The efficiency of performance of these projects should also be brought under consideration. Accordingly, this paper focuses on the resource allocation and its impact on Lahore Transport System by estimating the efficiency and productivity of the franchise based bus services on 15 selected urban public bus routes of the Lahore city. Data of inputs and outputs is used from July-2013 to Mar-2014. Using data envelopment analysis, the study finds relative technical efficiency scores of different routes and total factor productivity (TFP) under the first stage DEA. Further under the second stage DEA analysis route wise targets and slacks of inputs and outputs are examined. The results imply that the public transport sector of Lahore is performing satisfactorily, mainly due to the improved managerial efficiency and technological changes. At the end recommendations have also been made based on this empirical work.

14. Role of microfinance in poverty alleviation in rural areas of district Sargodha, Pakistan                  by Ahmed Raza Cheema and Rajinder Parkash

*Abstract*

This study calculates headcount ratio andanalyzes the impact of microfinance issued by the Punjab Rural Support Programme (PRSP)usingthe Multiple Ordinary Least Squares (OLS) regressionin the rural areas of District Sargodha Pakistan. The study estimates the Multiple Ordinary Least Squares (OLS) regression using the primary data. The results depict that headcount ratio was 56.7 % before, butit reduces to 14.1 % after getting microfinance. The resultsof OLS regression show that microfinance plays an important role in poverty reduction.The results also reveal that poverty is inversely related with number of earner and level of education, whereas it is positively associated with household size. At a policy level, it is suggested that micro finance should be provided to the poor at the least interest rate. Government should also manage maximum job opportunities and education especially for the poor. It should also focus on family planning awareness to control household size especially among the poor.

15. Potential for index insurance in barani areas of Pakistan

  by Hira Channa

*Abstract*

This paper explores the possibility of utilizing rainfall data and Normalized Difference Vegetation Index datafor developing an insurance product that protects farmers from weather related yield losses in wheat production in Pakistan’s barani areas. We find thatwhile rainfall data serves as an effective index, NDVI data only partially captures the yield variability in wheat production.

16. Corporate social responsibility and cost of equity; mediating role of financial performance

  by Muhammad Ishaq and Ch. Mazhar Hussain

*Abstract*

This research study aims to investigate the relationship between corporate social responsibility and cost of equity with financial performance as mediator. The sample of the study comprises of 100 firms listed on Karachi Stock Exchange. The period of the study ranges from 2005 to 2014. Panel regression techniques have been used to carry out this research. For mediation analysis bootstrapping technique is used. The results of bootstrap test show that financial performance does not mediate the relationship between corporate social responsibility and cost of equity. Overall the results of the study suggests that the corporate social responsibility is still in its infancy stage in Pakistan and there is a need for civil society, business and government to create mass awareness about corporate social responsibility.

17. Hedonic price approach: Testing relationship between quality attributes of mutton and its prices in Faisalabad City, Pakistan

  by Abdul Ghafoor, Shahzad Rafique and Asghar Ali

*Abstract*

This paper attempts to analyze the impact ofmajor factors affecting consumers’ perceptions about market prices of mutton employing hedonic price approach and using primary sources of data.A representative sample of 80 mutton consumers was selected using stratified random sampling technique.The impact of major factors on mutton prices was analyzed by employing multiple regression analysis.The value of R2 was 0.60 whereas the F-value was 12.78. The findings of analysis reveal thatfreshness, hygiene, fat contents and condition at retail level are the significant variables affectingconsumers’ perceptions about prices of mutton whereas the variable (stamp of abattoirs) shows insignificant impact. It is suggested to ensure the hygienic conditions and quality of mutton by developing mutton value chainsequippedwith proper slaughtering and mutton management practices. It is further suggested to enforce rules and lawsto ensure fair prices and quality of mutton in the city.

18. Energy security and economic growth in Pakistan

  by Tahir Mahmood and Muhammed Tayyab Ayaz

*Abstract*

Energy is crucial input in the process of economic growth. Sustainable economic growth necessitates sufficient and continuous availability of energy. Pakistan is confronting energy insecurity that is seriously hindering the economic development. This study is an attempt to investigate the relationship between energy security and economic growth in Pakistan. The major concern of energy security is associated with the availability of suitable energy supply in cheap and consistent way to fulfill the energy demand in the future. The demand and supply gap of energy is used as a proxy variable for energy security in this study. The data source is Energy Information Administration(EIA), where data is available at disaggregate level for different sources of energy ( i.e. Oil, Gas, Coal and electricity) and period is from 1980-2012. Therefore, aggregate variables are generated by converting this data into unified unit of measurement. We use error correction model (ECM) to analyze the short run and long run causality between energy gap and economic growth. The results show that unidirectional causality runs from energy demand and supply gap to economic growth in short run as well as in long run. This relationship is negative and statistically significant in both short run and in long run , which indicates that low energy security (i.e. increasing energy gap) halts the economic growth of Pakistan. Consequently, study concludes that the government should focus over better management of energy demand and energy supply.

19. The determinants of services sector growth: A comparative analysis of selected developed and developing economies

  by Muhammad Salam and Javed Iqbal

*Abstract*

*This study empirically examines the possible factors that determine the services sector growth both in selected developed and developing economies. For estimation purpose, the study employs the static as well as the dynamic panel data estimation technique over the period 1990-2014. The results suggest that GDP per capita, FDI net inflow, and trade openness and innovations are the common factors that significantly affect the services sector growth both in developed and in developing economies. However, the productivity gap is the only factor that does not have any significant impact on services sector growth both in developed and developing economies which indicates that the Baumol’s cost disease has been cured.*

20. Trade revenue implications of trade liberalization in Pakistan

  by Khalil Ahmad,Safdar Ali and Amjad Ali

*Abstract*

This study attempts to investigate the effect of free trade on trade tax revenue in case of Pakistan during 1972-2014. For time series analysis, Autoregressive Distributed Lag (ARDL) model has been used for examining the long run co-integration among the variables and Vector Error-Correction model is used for short run dynamics of the variables. The empirical results show that quantitative trade restriction is positively linked with trade tax revenue. On the basis of empirical findings, this study suggests that trade liberalization has negative impact on trade tax revenue. We improve the volume of average tariff rate; it may cause to increase the trade tax revenue for Pakistan in both short run and long run.

21. Foreign trade pattern of Pakistan

  by Nazia Gul and Imtiaz Ahmad

*Abstract*

This study investigates the overall trade pattern of Pakistan while using gravity model approach. The study has applied panel dataset for 10 major trading partners of Pakistan for the period 2005-2015. Our analysis is based on Panel data for which we have estimated Pooled OLS, FEM and REM while taking different assumptions. The empirical results are found to be consistent with the basics of gravity model as the study indicates positive relationship between the economic size, level of development and trade and negative relationship between the distance and trade. Overall results indicate that Pakistan needs diversification both in markets and products. It also needs to enter into new trade agreements with an aim to explore new markets so that it could then be able to reap the benefits of trade at the fullest.

22. Foreign remittances and sources of economic growth:

Evidence from Pakistan

*By Saeeda Bano, Faiza Azhar Khan and Tahir Mukhtar*

*Abstract*

*The present study aims at analyzing the impact of foreign remittances on sources of economic growth, namely physical capital, human capital and total factor productivity (TFP). There has been substantial literature related to the impact of foreign remittances on economic growth for Pakistan but there has been dearth of literature related to the impact of foreign remittances on sources of economic growth. The study covers the time span 1972-2013 has been used and it has employed three estimation techniques, namely, the OLS, the FMOLS and the GMM to execute empirical testing. Results indicate that foreign remittances significantly contribute in building physical and human capital of the country along with improving the TFP.*