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Research Article

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Impact of Employment and Investment on Economic Growth in Pakistan: A Time Series Analysis

Zaib un Nisa*

Bahauddin Zakariya University, Multan, Pakistan

***Corresponding Author**
Zaib un Nisa, Bahauddin Zakariya University, Multan, Pakistan.

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Abstract

By utilizing the time series data, this research examine the connection between saving as well as economic growth. For empirical analysis, the technique of ordinary least squares is used. The evaluation takes place in two components. The first one explains the correlation matrix and descriptive statistics. In the second part, the multivariate analysis examines how economic growth determines Pakistani saving. This indicates that the employed labor force, the exchange rate and gross domestic saving have a helpful and important influence on GDP. FDI and gross fixed investment have a negative but insignificant effect on GDP. The government is recommended to provide a favorable environment and tax incentives to improve FDI. These will Country's gross domestic product promotion is done by this. To do this, the industrial and agricultural sectors country must remain stable. A favorable business environment for investment in Pakistan must be created

Keywords: Surplus Labor, Workers Remittances, Deposit Rate, Trade Openness

1. Introduction

Economic theory has shown that household savings are the variation within household income and household spending. Income is the household's income that be paid from the entire of his assets within a year. Earnings from process, corporate profit, business earnings, crops earning interest payment is paid from farm manufacturing etc. are the ways of income. Expenditures on housing, clothing, food, education, rent, travel, bills, ceremonies, health, leisure, charity work, etc. Savings can come from many other sources, such as agriculture land, live stocks, shares, corporate profit jewelry. In the dynamic model, the country's growth rate is jointly described through the savings rate and the rate of incremental capital output. Harrod-Domer. The role of savings is very serious in the buildup of capital and in economic growth which is identified both in the gaps and in the classic growth rate, In the neoclassical growth model, saving has no impact on the economic development of the steady state, but rather is a relationship within a rapid high growth and higher saving rate in the country as it moves in the direction of long-term equilibrium. The highlight of developing countries, according to the transition path is additional significant than the other steady state. Recommended that savings influence the growth of the economy as greater savings for capital accumulation and, therefore, for economic de Conventional observed that savings contribute to high short-term GDP growth [1]. Lewis' traditional development predicted that improved savings would accelerate growth [2]. Kaldor and Modigliani discussed how different saving behavior led to growth. has shown that per capita growth is a determining factor of public and private savings to examine the relationship between savings and economic growth, this study has shown that the causality is of savings for economic development. According to the Pakistan Economic Survey, actual GDP is estimated to grow by 2.4% depending on the performance of the service sector which is below its 4.5% target. Such slow growth is due to slower growth in agriculture and developed.

Figure 1: Savings System in the Economy

According to government approximations, in the recent fiscal year, the economy is predictable to agreement 0.4 percent by recovering by 2.1 percent in the next fiscal year. According to the Policymakers, throughout these demanding times, the main concern of monetary policy has suitably moved toward sustaining development and employment

1.1 The Purpose of the Study

• To summarize the complete conceptual and theoretical background of economic growth as well as savings.
• To analyze the importance of savings in Pakistan.
• To calculate the overall affect of savings on an economy.
• To guess the empirical connection within savings as well as economic growth in Pakistan.

1.2 Review of the Literature

On this topic, Studies have been conducted on national as well as international levels using time series as cross-sectional data. But this argument is necessary for a more micro and macro analysis to describe a solid policy in the future. analyzed that the determinants of household savings in the process of economic growth in the Pakistani experience used data organized through the Pakistan State Bank, Pakistan economic surveys and world development series in the period 1980-2003 [3]. The study showed that the growth rate of per capita income, per capita income and the interest rate had a positive impact. The inflation rate, the dependency ratio of young people and the previous dependency ratio had a negative impact on long and short-term public savings. The study recommended that the technique converge towards long-term balance through an annual 5% adjustment. identified this growth rate of saving behavior in five Asian nations: the Philippines, Thailand, Malaysia, South Korea and Singapore, which depend on time series data from 1960 to 1997, using VEC, the analysis The researchers who analyze the savings rate do not cause the highest economic growth rate in the nation except Singapore[4]. mentioned the fundamental relationship between savings and production in Pakistan. They used quarterly data from the first quarter of 1973 to the fourth quarter of 2003[5].

The study utilized the term co-integration and the vector error correction technique to analyze the causality between output and savings. The result found that there was a long and short term equilibrium relationship within the different savings and output. investigated has an effect on the mobilization of rural savings in the economical growth of rustic people[6]. Main data was gathered from the questionnaire of 100 suspects from 6 Nigerian rural areas. The common least squares technique was utilized for the approximation. The outcome determined those activities, investments, revenue and personal resources had contributed positively to savings. The study's analysis indicates that the 98% change in savings was explained through assets, investments, income and human capital. It was recommended that rusted people should be completely prepared to enter in cooperative societies. Pagano's link among savings and economical growth is studied utilizing contemporary correlation and dynamic technique. Some of the research analyzed to correlate the savings level and economical growth are presented [7].

The study presented that common smallest squares regression and cross-sectional information concluded which promote savings leds to upper economical growth. points out that a superior level of national savings has led to higher investments and, consequently, to greater economic growth. Some of the research focused on the dynamic relationship of savings and economic growth usage the concept of granger causality. explained that the causality of savings and economic development in seven African nations uses VEC [8]. The researchers found that in four out of seven nations, Granger caused economic growth caused increasing rate of national savings; they obtained a two headed element in South Africa. Just in the conge, did the reverse outcome, the increasing rate of national savings Farmer caused economical growth.

2. Research Method

The problems according to information means, method of the tsk and exemplary description are defined in following sections

2.1 Nature and Data Sources

This part defines the type and source of the information used in this research. In this research, all variables follow a time series, as information is gathered for the duration 1972-2015. Annual data is obtained from the Pakistan Economic Statistics Handbook. Cross domestic savings, the employed labor force, rate of exchange, gross fixed investment and foreign direct investment. A little information was also obtained by the Pakistan Economical Survey. The unit of size for all variables in this research is in millions of money.

2.2 Econometric Techniques

The methodology studies Pakistani economic growth as well as Pakistani saving by conducting a time series examination. In econometric use, a few practical problems related to time series data. When there is a non-stationary problem in the fitted model, a spurious regression occurs, the results of the OLS procedure ineffective. For stationary changeable at stage 1(0) or the Durban-Watson (DW) worth is greater as compared to R2, the OLS technique is useful as well as appropriate.

2.3 Ordinary Least Squares Method

Gauss in 1974 introduced the OLS method. Based on some hypothesis, the least squares technique has a number of significant numerical characteristics that have prepared it one of the mainly admired and efficient methods in regression investigation. The OLS procedure is used to estimate the link between changeable. As soon as the entire study variables are the entire set to point I (0), the most utilized method is the OLS procedure. In multivariate statistics study, these methods are also significant. For this research, several regression models take the variety of

$$Y = \beta_1 + \beta_2 X_2 + \beta_3 X_3 + \cdots + \beta_n X_n + \mu$$

2.4 Model Specifications

The specifications of the model depend on the numerous regression approaches. The A-Log linear model is supposed like studied from the characteristics of the statistics where

RGDP = $\alpha 0$ + $\alpha 1$ELF + $\alpha 2$EXR + $\alpha 3$FDI + $\alpha 4$GFCF + $\alpha 5$GDS +μi (1)

GDP = Real gross domestic product, ELF = Employed labor force, FDI = Foreign direct investment, EXR = Exchange rate, GFCF = Gross fixed capital formation, RGDS = Real gross domestic savings μi = Description of the variables

3. Results and Discussions

The outcomes are described in two stages. In the first phase, the descriptive analysis as well as the empirical analysis is performed in the next phase.

3.1 Descriptive Analysis

Descriptive statistics provide the fundamental features. Describe the level of connection between the variables. Initially, it describes the mean of the variables and the following tables show the SD, least and highest of the variables. The chart showed pair wise correlation and descriptive statistics. The variables are optimistically connected to one another and the mean worth is the range of the lowest and greatest values

Variables	Average	Max	Min	SD
ELF	35.10659	57.42	19.24	11.70223
EXR	39.82809	102.7693	8.681383	30.18188
FDI	8.70099	5.59999	4000000	1.3309
GFCF	7.47711	3.877112	6.811009	1.022112
GDS	5.32211	2.544112	4.855009	6.544111
Source: evaluation via E-views statistical software.				

Table 1: Descriptive Statistics of the Variable (in Millions of Rupees)

3.2 Correlation Matrix

The connection coefficient among two independent variables has an absolute rate, then there is a serious multicollinearity issue. The table indicates a zero-order correlation coefficient between the erratic. If we discuss this matrix, the employed labor force is moderately related to GDP.The table indicates a zero-order relationship coefficient between the variables. According to this matrix, the employed labor force is moderately related to GDP.

3.3 Multivariate Analysis

The firstly examines the abbreviated variables in the type of ELF, EXR, FDL, gross fixed main configuration and gross household saving. Then explain the co-efficient. Columns 3 discuss the S.E. The effective regression t-test is usage & the probability is discussed in the fourth column.

Var	Co-efficient	Std. Error	T. Stat	Prob
C	2.144001	0.551675	38.82941	0.0000
ELF	0.193193	0.026348	7.332387	0.0000
EXR	0.012351	0.010767	1.14711	0.2585
FDI	-4.000111	5.522111	-0.72475	0.473
GFCF	-9.922113	2.311113	-4.29326	0.0001
GDS	1.499113	4.666113	3.701	0.751
R. Sq	0.96	Observation	44	
Adj R. Sq	0.97	Prob (F-stat)	0.00000	

Table 3: Estimates of Savings and Economic (GDP Growth as Dependent Variable)

The employed labor force is an important element that immediately persuades savings. The ELF has an optimistic as well as statistically irrelevant impact on gross domestic products. The cause of the positive effect of the employed labor force could be that savings are achieved through a high return on growth, job chances are produced, and the marketplace is prolonged because of the multiplication of savings and service. High Employment labor force: Natural resources are utilized, as determined by oil as well as gas. The outcome suggests that growth has an affirmative effect on the level of employment and has a statistically significant relationship because the point of service build ups, humans find work and poverty decreases, so the point of growth increases.

The exchange rate has an important as well as helpful effect on GDP. The exchange rate or trade rate takes part in a fundamental part in economic growth. The association between the trade rate and economic growth is practically a major regulatory and prospective challenge. Many developing nations that have explicitly and implicitly expressed their exchange rate to the US and whose price rates are higher as compared to those of the overseas US frequently have constant existing account shortages and any currency depreciations. Regular devaluation requires decline and price rises and moves the financial organization into an inflation depreciation coiled; inflicting a tremendous hinder on economic growth. Extra rising nations are growing extremely quick and often face substitute stresses on their money. An extreme financial development charge is likely to be supplementary by elevated savings and extreme exports, as successful exports produce in progress account added, ensuing in so-called currency admiration pressure, apart from that it averages in the currency exchange trade and accumulate foreign reserves

Foreign direct investment has an unenthusiastic impact on the development of the host economy if it stimulates a huge overturn flow of profit remittances, if the sources are sent via transport prizing and dividends. FDI can diminish contest and development if the host country's administration offers more safety to overseas depositors to pull towards their capital. The reliance school theory states that overseas asset from industrial states is detrimental to time-consuming-period financial development in rising nations. By pulling out employment and further assets from emergent countries, he found that developed countries get well-off. This type of work motivates the deformation to delay development and enlarge profits, variation in unfortunate nations.

Gross fixed capital formation is described as an insignificant and statistically negative impact on the gross domestic products. The coefficients of all variables, except participation in the workforce, are less elastic. The study exports the lowest share of capital in economic growth compared to the share of work in growth. The reason may be that Pakistan is a densely populated nation and the workforce is constantly growing. As a result, the capital stock is growing due to the expansion of training and education structures, education and the provision of better health facilities, including in rural or backward areas of the country.

The savings coefficient found that gross GDS has a statistically insignificant and positive effect on short-term GDP. When gross domestic savings are high, investments are high; job opportunities will also be high. As a result, people's incomes and productivity will be high, GDP will also be high. When private savings increase, the savings are transferred from household to the business, who can invest these savings in the production process for this purpose, a well-developed market is needed such as stock exchange, bank, investment, insurance companies and financial companies. . As the consolidated capital market guarantees the transfer of savings to investors who request them, GDP will also increase.

4. Discussion

This study assessed economies and financial growth in Pakistan. The result of the study focuses on the significance of saving to enhance growth. The research resulted that the employed labor force, the exchange rate and gross domestic savings have an important and optimistic impact on GDP. FDI and FCG have a considerable depressing effect on GDP. Therefore, the government is advised to provide a favorable environment and financial motivations. The country's GDP will improve. Therefore, the undeveloped and manufacturing areas of the state should be recognized. In Pakistan it is necessary to create a business environment conducive to investment.

1) The government can implement supportive policies to improve private savings and reduce unproductive expenses.
2) The government can help provide a favorable investment environment, such as tax incentives to increase overseas straight savings. This will allow for increased savings and growth in the

state.
3) The government can provide microloans and give land to the poor to farm. Loans and grants can be given to smallholder farmers to improve agricultural and everyday products to achieve economic growth.
4) The administration should offer basic strength and diet services in the workplace so that they can work in a strong surroundings into old age and increase their level of savings in terms of growth.
5) It is possible to create family income opportunities so that citizens can work according to their options like amateur, weekly and around the clock for further economy and growth.

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