

GROSS FIXED CAPITAL FORMATION & ECONOMIC GROWTH OF PAKISTAN

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ABSTRACT

This study analyzed the impact of gross fixed capital formation on economic growth of Pakistan using annual time series data from 1981-2014. Before the regression analysis the data was pre-tested by applying Augmented Dicky-Fuller (ADF) unit root test to check stationary of data. The Johansen Co-integration and Vector Error Correction Model (VECM) are applied to find the co-integrating factor and regression analysis with the help of econometric software E-Views. The variables included in the study is the Economic Growth of Pakistan (GDP) as the dependent variable and the independent variables are Gross Fixed Capital Formation or Gross Fixed Capital Investment (GFCF), private physical capital investment (PRIVT), Public Capital Investment ratio to GDP (Pub), Dummy for Trade Openness Policies or Trade Liberalization Policies (TOP), price index of capital goods (Ipk), both Literacy rate and technical education (Edu) and Financial development is taken as the ratio of M3 to GDP (FD). All the variables are significant having true expected signs showing the long run relation with the economic growth. The study suggests that the provision of skilled labor can improve the productivity and the export of final products can give rise to economic growth of the country.

KEYWORDS: GDP, GFCF, ADF and VECM Model