

Determinants of inflation:
A case study of developing and developed countries



BY

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MS APPLIED STATISTICS

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SCHOOL OF BUSINESS & ECONOMICS

UNIVERSITY OF MANAGEMENT AND TECHNOLOGY

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A project submitted to Department of school of Business and Economics in partial fulfilment of the requirement for the Degree of MS Applied Statistics

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

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Sadia Ghaffar

DEDICATION

I dedicate my dissertation work to my family, my sisters (Nadia, Maria, Saman, Seher and Sania) and many friends specially to Saman Ashraf. A special feeling of gratitude to my loving parents "Ghaffar Ahmad" (late), "Balqees Akhtar", whose words of encouragement and push for tenacity ring in my ears.

CERTIFICATE

It is hereby certify that the research work entitled “ **Determinants of Inflation A case study of Developing and Developed Countries**” by Sadia Ghaffar, session (2014-16) has been carried under our supervision in partial fulfillment of the requirement for the award of degree of **MS Applied Statistics** and is hereby approved for submission. It is furthercertified that the research work carried out by the scholar is original and nothing is plagiarized in it.

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DECLARATION

I hereby declare that the project entitled“ **Determinants of Inflation A case study of Developing and Developed Countries**” neither as a whole nor as a part has already been written by any person.

It is further declare that I have done the research entirely upon the basis of my personal efforts made under the guidance of my supervisor.

No portion of the work presented in this project has been submitted in support of any research for any other degree or qualification of this or any other university of institute or institute of learning. This project is submitted for the award of **MS Applied Statistics**.

Sadia Ghaffar

Abstract

In this study we will discuss about the determinants of Inflation in developing and developed countries we select the topic about determinants of inflation because all the countries worldwide are facing the problem of price rises. . The problem of inflation in Pakistan has been gradually increasing since separation and we know when prices will rise than the currency of a country will not be stable of a country. We try our best to make the best combination of the dependent and independent countries to get some meaningful results our objective in the study to find out the factors that are effecting the inflation in these days. For this purpose we collect the data from world developed indicator and index Mundi first of all we select the developing and developed countries by following the world developed indicator site after this we made the four groups of the developing countries and four groups of developed countries then we use the unit root test to find out the stationary of the variables then we run the Pooled Mean group estimators to find out the long run and short run equations we use the Shapiro wilks test to find out the normality of the model and for the purpose of Autocorrelation we use Autocorrelation Lagrange multiplier test and for model specification use the link test we check the Homoscedisty by using the White Hetroscadisticity test for the purpose of finding the Multicolinarty use variance inflation factor and tolerance method and to find out that there is co integration or not we use Kao residual co integration test.

Table of Content

Chapter # 1	1
1 Introduction.....	1
1.1 Background	1
1.2 Status of inflation in Pakistan.....	3
1.3 Reasons of Inflation.....	4
1.4 Components of Causing enhance in Demand.....	4
1.5 Components of Causing Decline in Supply.....	4
1.6 Statement of Problem.....	5
1.7 Objective.....	5
1.8 Significance of the Study.....	5
1.9 Organization scheme of the study.....	5
Chapter # 2	6
2 Literature Review.....	6
Chapter # 3	17
3 Research Methodology	17
3.1 Research Questions of the Study.....	17
3.2 Hypotheses of the study.....	17
3.3 Data Source and Methodology.....	17
3.4 Methodological Framework.....	18
3.5 Variables and Abbreviatio.....	19
3.6 Regression analysis.....	20
3.6.1 Assumptions of Regression analysis.....	20
3.7 Time Series Analysis.....	20

3.7.1	Assumptions of Time Series Analysis.....	20
3.8	Use of Co-integration.....	20
3.9	Shapiro-Wilks W test for normality.....	21
3.10	Multicollinearity.....	21
3.10.1	Perfect Multicollinearity.....	21
3.10.2	Near Perfect Multicollinearity.....	21
3.10.3	Detection of Multicollinearity.....	21
3.11	Autocorrelation.....	22
3.11.1	Detection of Autocorrelation.....	22
3.12	Heteroscedasticity.....	22
3.12.1	Reasons of Heteroscedasticity.....	22
3.12.2	Detection of Heteroscedasticity.....	23
3.12.2.1	Formal ways of Detecting Heteroscedasticity.....	23
3.12.2.2	Informal ways of Detecting Heteroscedasticity.....	23
3.13	BreuschPagantest.....	23
3.14	Model Specification.....	23
3.14.1	Link Test.....	24
3.15	Unit Root test.....	24
3.16	Pooled Mean Group Analysis.....	24
3.17	Kao residual co integration Test.....	24
	Chapter# 4.....	26
4	Empirical results and discussion.....	26
4.1	Stationarity of the data.....	26
4.1.1	Unit Root test.....	27
	Table #4.1.....	27
	Table # 4.2.....	28
4.2	Shapiro-Wilk W test for normality.....	28

Table # 4.3.....	29
Table # 4.4.....	30
4.3 Multicollinearity.....	30
Table # 4.5	30
Table # 4.6.....	32
4.4 Kao residual co integration Test.....	33
Table # 4.7.....	33
Table # 4.8.....	34
4.5 White Heteroscedasticity test.....	35
Table # 4.9.....	35
Table # 4.10.....	35
4.6 Autocorrelation.....	36
Table # 4.11.....	36
Table # 4.12.....	36
4.7 Diagnostics test.....	37
Table # 4.13.....	37
Table # 4.14.....	37
4.8 Model Specification.....	38
4.8.1 Link Test.....	38
Table # 4.15.....	38
Table # 4.16.....	38
4.9 Pooled Mean group Model.....	39
Table # 4.17.....	39
Table # 4.18.....	41
Chapter# 5.....	43
5 Conclusion.....	43
5.1 Research Gape.....	44

5.2 RECOMMENDATION.....44

References.....46

Chapter # 1

INTRODUCTION

In these days problem of price rises is a worldwide clear reality in the world nearly not any state these days that is not in front of the difficulty of price increases. The reality of price rises is mainly the notice of the researcher and economists everywhere in the world. As stated by Meeyer as improve in the inflation that to appear after complete service has been attain an easy description of inflation is an increase in prices and or decline in purchasing power. However over the years, the definition of inflation has undergone a change. As reported by the Webster's an improvement in the quantity of money in movement, resulting in a comparatively quick and unexpected fall in its value and increase in price it may be reason by an enhance in the quantity of paper money issue or of gold hand or qualified boost as amount of money that spend by someone when the supply of services go down to meet the desire of buying goods and services. Ackelly suggested that inflation is a constant and considerable increase in the common level or standard of prices. And Croowther confirmed that in the situation of inflation the value of the things will be are raised the value of currency will be decrease.