DYNAMIC INVESTIGATION OF THE MACROECONOMIC DETERMINANTS OF UNEMPLOYMENT IN PAKISTAN

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Abstract

This research is aiming to explore the incidence of macroeconomic variables on the variation in rate of unemployment in the economy of Pakistan through the estimation of dynamic model. Keeping unemployment rate within lowest possible levels is challenging task for the economists and policy makers. The negative consequences of higher unemployment rates are not only confined to the economic consequences, rather it has direct linkages with numerous other socio-economic factors as well. In order to estimate the extent of long run relationship among the variables we used Johansen co integration test and Vector Error Correction technique is used to explore the short run behavior of the variables. The empirical findings suggest the prevalence of Okun’s law and Phillips curve in the short run for the economy of Pakistan. Another important contribution of this study is associated with the magnitude of energy supply and economic uncertainty, and it suggests that the impact is larger for unemployment in the short run while population has large effect in magnitude in the long run.

Keywords: Unemployment, Okun’s law, Phillips Curve, Co-integration, Vector Error Correction.

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