ISSN 0976-4224
JOURNAL OF
ECONOMICS

J Economics, 1 (1): 45-51 (2010)

Determinants of Inflation: A Case of Pakistan (1970-2007)

Rana Ejaz Ali Khan* and Abid Rashid Gill**

Department of Economics, The Islamia University of Bahawalpur,
Bahawalpur-63100, Pakistan
Telephone: 062 9255456 ext: 433
****Cell: +92 0345 8724744, *E-mail: ranaejazalikhan@yahoo.com***
*****Cell: +92 0301 4126963, **E-mail: abeepk@yahoo.com***

KEYWORDS Supply of Money. Exchange Rate. Imports. Support Prices. Budget Deficit

ABSTRACT The high inflation is undesirable phenomenon. The causing factors of high inflation remained inconclusive by both monetary and fiscal perceptions. The procurement prices and administered prices along with imported inflation have contributed to higher inflation. The paper focuses on the determinants of inflation in Pakistan using four price indicators, i.e. CPI, WPI, SPI, and GDP Deflator for the long-run (time period of 1971-72 to 2005-06). It is found that depreciation of exchange rate and increase in the value of imports has contributed shooting up of CPI, WPI, SPI and GDP deflator. The support prices of sugar-cane, rice, wheat, and cotton (collectively) have affected all the indicators positively however, the support price of wheat independently has affected only GDP deflator. Expectation effect has also contributed positively towards all the indicators. Contrary to the general perception that budget deficit creates inflation, our results explain that budget deficit has played no role in boosting all the four indicators of inflation in Pakistan in the long-run.

JEL Classification: E31, E50, E51, E64, H62