

The Impact of macro-economic variables on economic growth evidence from south Asian countries



**Thesis Submitted to
The Superior College, Lahore**

In Partial fulfillment of the
Requirement for the Degree of

Master of Philosophy In Commerce and Finance

By
ALI SAJJAD

Roll No. MSCF14-015

Session: 2014-2016

The Superior College (School of Management Sciences), Lahore

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DEDICATION

Firstly, I am very grateful to **ALLAH ALMIGHTY** who strengthens me enough to complete the study. Without HIS support nothing can be completed.

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ABSTRACT:

The study investigates the impact of foreign direct investment, financial development, inflation and unemployment on economic growth, with particular selected region south Asian countries. For this intention, the present study selects GDP as a dependent variable while foreign direct investment(FDI), domestic credit to the private sector (DCPS), domestic credit to the private sector by banks (DCPSB), M2(quasi money), unemployment (UN) and inflation(INF) are used as independent variables over the period 1982-2014 from WDI. In this study used pool unit root test, correlation, descriptive statistics, fixed effect estimate test, random effect estimate test and hausman test through e-view software by testing the hypothesis. Positivism paradigm used in this research strategy. The results indicates that FDI, DCPS, DCPSB and M2 have positive and significant effect on GDP in south Asian countries but INF and UN have significant and negative impact on economic growth. This study provides better understanding about the role of GDP growth in attracting foreign direct investment inflows and control the inflation and unemployment. The contribution of this article that the development of the financial system of the receiver country is much essential condition for GDP. Inflation and unemployment also effect the economic growth. An additional developed financial system positively contributes to the process of technological flow connected with foreign direct investment; reduce the level of inflation and unemployment in the country. The host country should maintain a structure for the development of strong financial system and promote foreign direct investment flows by contribution in tax incentive, transportation subsidies, import duty exemptions and other measures to catch the attention of FDI. The study provides help to the government in developing countries to maintain the factors which promote the foreign direct investment, financial development, reduce the level of inflation and unemployment.

KEY WORDS: Foreign direct investment, gross domestic product, economic growth, investment, financial development.

CHAPTER#1

1. Introduction and background:

The other identification of the South Asian international location is Southern Asia; it is the southern district of the continent of Asian. During the generation that the British Empire it used to be also termed as Indian Subcontinent. Sri Lanka, India, Bangladesh Afghanistan, Maldives, Bhutan, Nepal, Pakistan are the countries includes in South Asia. In addition, the British the deep country, Tibet regions are also integrated in South Asia. The area of South Asian is about 5.1 million km; it is 11.51% of the Asia subcontinent. South Asia covers (3.4%) of the world's floor outdoor region. It is most tightly occupied environmental area of the humanity. It is the habitat of the world's residents. Population of South Asian is about 1.749 billion. It contains over 24% of the world's population. All eight countries comprising South Asia are the part of the South Asian connection for district collaboration. It is a corporation for the economic collaboration of all eight countries. According to the record of World Bank which used to be published in 2015, South Asia turns into the quickest developing cost-effective vicinity in the world. India is the greatest and quickest rising financial system in the vicinity (US\$2.180 trillion). Pakistan has the subsequent greatest economic system in South Asia (\$250 billion) accompanied with Bangladesh and Sri Lanka. The Economic data in US Dollars posted by the International Monetary Fund, on April 2015.

Economy plays a full-size function for the improvement of a country. It is influencing study to estimate the relationship of inflation, unemployment, FDI and FD on EG. A lot of developing countries in the province of the world have experienced increase in their economy by using even previously growth in worldwide communication; especially shape of FDI (Wir, 2011). Net percentage FDI in gross home product has finished additional five times in the nineties and before the time twentieth century is the creation of FDI and EG of a subject of developing pastime (Wir , 2011). After a decline of about four percent each yr in the course of 1980-1985 the level and share of FDI in growing economies has expanded significantly. Throughout the afternoon in the division of the 1980, FDI in creating higher than earlier than every year via 17 % economy. In 1993, overall FDI to growing countries was \$ 70 billion, and the burden of FDI inflows accelerated with the aid of 125% in the first three years of the decade (Kreinin, Lowinger et al., 1998).

FDI main shape of capital circulation in that countries which are on growing stage for improved crew equality investment, personal loans, and reputable support. The percentage of FDI is 45% of foreign flows in growing nations in 1997 (Perkins 2001). Moreover, according to the report of World Bank (2002) suggested that in 1997 growing countries obtained 36% of complete FDI flows. The division of growing countries in world foreign direct investment in and out flows has risen from 17.4% in 1985-90. For Pakistan the total of foreign direct in flow accelerated from \$ 245 million. Most growing nations think about FDI as an important supply of growth. Boyd, Levine and in 1998, further than semi of the entire secret flow of capital to in countries which are on growing stage considered by FDI. The confusion of proficient economy, the weight between policymakers in creating international locations shift to FDI attraction. Opinion is supported through the globally institutions and policymakers as well, as is prove in the 1997, when disaster began in South Asian countries the world has discovered weakly managed financially, can go ahead to a stretched financial recession to converted poverty cycle. But the possible advantage of global flow of capital is massive, the tremendous giving of FDI to boosting output. The inflow of (FDI) multiplied unexpectedly at some point in 1980s and 1990 in every district of the world stimulating the long and controversial argue about the incomes and expenditures of FDI in flows. Firstly many researchers argue give some strategies for the attraction and development of FDI, Main role of FDI in those countries which have higher financial surroundings. On the other side possible Drawbacks exist, include a weakening of the BOP. The present agreement shows that there is a relationship is positive between the economic growth and monitory development, furnished getting international locations reached a least stage for instructive, industrial and development of infrastructure. An option theory involving the association performance of financial sector and inflation governments join high inflation with various limits on the monetary region to funds (Smith 2001).

The economy has repetitive to operate properly and powerfully; increased than the ultimate numerous years with the financial increase grow up to 8.4% in 2004-2005. The speed is excessive in two decades. Inflation is very serious due to the fact inflation is equal like the toothpaste because when it come out from the tube is difficult to cover back into the tube. It is well known that to taming the inflation is very hard and tough task job inflation is about the 8% which was aimed for the year of fiscal in 2005-2006. The percentage is low as compare to the last 12 months which used to be 9.3% inflation. The typical monetary growth during the closing

45 years used to be about 5.5%. There are a lot of difficulties turns round to macroeconomic course such as inner and exterior pressure. In interior there are no longer only exists gaps amongst profits and public expenditures, investments and funds, resident's improvement and resources deal in creating countries but attainment in setting up financial markets has additionally now not been done properly. In Externally in growing nations have to face disparity between exports and imports. These developing countries have to face many issues of change rate. So to be aware of about the sustainable increase sample is very difficult to recognize because it is impractical.

If inflation grows at a high level it is calculated very unsafe for the financial increase in growing countries. An opinion which has been guide through the global institutions as properly as policymakers as prove in the World growth account as 1997, when disaster began in south Asian countries the world face badly managed economy can direct to a stretched financial recession and altered rotation of poverty. Inflation can be described as “the proportion increases in the fees of goods and services, regularly yearly, or a determined great upward jostle in the ordinary level of price related to and increases the dimension of cash and ensuing in the loss of value of currency. Inflation can additionally be described the on the total conventional upward rate movement of goods and offerings in an economy. Usually it is calculate through price index number. Whether the studies have been conducted on time collection or cross-sectional facts of developed or creating country. After all this divergence leads the theorists upon a harmony that if in a county there is permanence in a low stage of inflation (may be single quantity inflation) than inflation may additionally show supportive in promoting monetary increase of that country (Mubarik and Riazuddin 2005). With the way of event a general union developed that the moderate inflation helps in financial growth, one of a kind prominent rate stage that may additionally create lack of confidence and gradual down financial performance. This settlement moves smart strategy problem of how much of inflation is too lots that is, how much inflation impedes financial boom although employment on modeling the nature of involvement connecting inflation and monetary growth is under development, a substantial quantity of literature on this question is available. Numerous studies to this count for each developed and growing countries. However Khan and Ssnhadji (2001) worked is shaping in that it in fact calculates the shelf stage creating together inflation in developing areas. For rising it, the level of its reach to the stage of 7-11 percent.

Unemployment is essential dilemma because when unemployment is excessive funds are wasted and humans' profits are miserable. And this despair of profits can make human beings poor. Poorer and poorest. Unemployment is an upward problem of every state. In developing nations has reached to a risky stage and joblessness is developing daily. This is extraordinarily great research to engage the unemployment on EG. The FDI inflow increased rapidly at some point 1980 and 1990 of world stimulating and arguable opinion about the charges and benefits inflows of FDI. It is considered that the relationship between the EG and FD is significant and reached to the minimum level of instructive, industrial infrastructural development.

The importance of the financial development in promoting growth has received much concentration. In established exists that well-functioning economic intermediaries have played a considerable position in monetary growth (Wachtel 2003). The innovative help of Goldsmith (1969) and Mckinnon (1973) concerning the association between FD and EG has continued to a vital discuss in rising economy. The country wide argument for connecting economic increase to expansion is that an effective financial development performs numerous unsafe features to improve the competence of intermediation by means of dropping information, business, and monitoring costs. A modern financial system promote the correct commercial enterprise opportunities, gather investments, monitors the Routine of managers permits the trading, hedging, and diversification of risk. These features end result in additional, well-organized resources, extra fast accumulation of physically and human capital, and in quicker industrial progress, which in turn over provide FD. Association between EG and FD has international unfold consideration in the past three decades and there have been a great research on this region. Bagehot (1873) argued FD played a large phase for the industrialization channeling procedure in U.K. It is argue that FD helps to recognize more suitable savings which decreases the cost related to the conduct the transactions, savings related to the investment, the effective system of technology and increase the hazard taking ability of buyers two (Levine 1997). Firstly FD is observed with financial boom and financial improvement is not a big issue to growth. Lucas (1988) founded that researchers are poorly disturbing on FD for growth. Many researchers conduct the individual studies on inflation EG, unemployment and growth, FD and economic growth FDI and EG but there is gap to see the combined effect all these variables on economic growth. So this study is conducted to see the impact of inflation, FDI, unemployment and financial development on EG in South Asian countries.

1.2 Justification for study:

It is argued that the expansion of financial system and foreign direct investment are requirement for an economy. To attract more funding possibilities and growth for economy the economic improvement is necessary. Many researchers conduct the study individually like the impact of FDI on EG, the impact of FD on EG, the impact of inflation on EG and the impact of unemployment on EG. But in South Asian countries not conduct the combine study on these variables to see the impact on EG. To see the effect of inflation, unemployment, FDI and financial development on EG is necessary to verify whether (or not) there is any relationship between these variables in South Asian countries. The variable used in the study is inflation (INF), unemployment (UN), (FDI), financial development (DCPS, DCPSB, and M2) and economic growth (GDP GROWTH).

1.3 Problem statement:

A lot of developing countries “in the location of the world has experience low Economic growth. This opinion has been supported with the aid of the worldwide by the people who make the policies as well, as is prove 1997, when the disaster began; the countries has badly managed monetary can go ahead to a stretched economic recession modified cycle of poverty. Unemployment is central problem because when unemployment is high resources are wasted and human’s income is depressed. And this depressed of profits can make humans poor. Poorer and poorest. Unemployment is a developing trouble of developing nations. Developing countries have reached to an indispensable stage and joblessness is growing daily. This is very necessary to locate out about the affect of unemployment on EG. As far as macroeconomics and the difficulty of monetary policy there are many areas where disagreement. Although a comparatively tremendous wide variety of central banks have adopted a formal inflation objective. One of the charges occasionally compulsory aligned with an inflation objective is that it pays unsatisfactory to objectives of economic different than inflation. In accumulation, confusion stays on what the character economic policy need to play in decreasing each unemployment and inflation in south Asian countries. Hence, low unemployment and inflation still remain undertaking in South Asian countries. The other problem in the creating counties is the inflation the proportion increases in the costs of items and services usually annually, or a continual big rise in the widespread stage of price related to and will increase to increases the

quantity of money and ensuing in the loss of value of currency. There is no source of investment in these creating countries, no one agreed to make investments because of low economic growth. There is no development of finance in South Asian countries. The importance of the monetary improvement in merchandising monetary increase has received a lot concentration. In everyday present exists an extremely good consensus that intermediaries related to the finance have played a positive role in monetary increase (King and Levine 1999). Boyd and Choi (1996) argued that decrease in the level of inflation the growth and make the adverse resolution trouble markets related to the capital harsher to excessive diploma reward rationing and a contrary influence on monetary development. In a financial increase model, Smith (1999) showed rapid level of cash high prices configuration limit the actual return on all property and, underneath certain circumstances, lead to a minimize the quantity of alternate markets. Mustascu and Tiwari (2011) described the monetary boom and FDI in Asia. Asian nations that are affecting before hand for pressure globalization pick out FDI. Lensink and Hermes (2003) investigated FDI, FD and EG. Findings indicated that the financial system development of the beneficiary country is much vital FDI to the positive impact on EG. So it is very important to study these macro economic variables in south Asian countries.

1.4 Research objective

1. To examine the impact of inflation on economic growth in south Asian countries .
2. To evaluate the effect of unemployment on economic growth in south Asian countries .
3. To determine the influence of foreign direct investment on economic growth in south Asian countries .
4. To test the impact of financial development on economic growth in south Asian countries .

1.5 Research questions:

2. What is impact of inflation on economic growth in south Asian countries ?
3. How unemployment effect on economic growth in south Asian countries ?
4. How foreign direct investment influence on economic growth in south Asian countries ?
5. What is impact of financial development on economic growth in south Asian countries ?

1.6 Scope of the study:

FDI advantages to the host country as properly as to the home states of noted many authors. Alfaro (2003) stated that foreign direct funding can serve as a make contributions treasured science and understanding to the host developing nations by means of assist relationship with nearby firms. Annan (2003) summarized the magnitude of FDI to the creating economies as follows. With the huge viable to increase in exports, increase in productivity, to beautify the job opportunities, FDI perform a vital part in the economy of developing countries. Levine (2003) explored economic establishments help hazard minimization and the well-organized allocation of resources, it may additionally no longer enhance growth because higher finance skill larger returns to saving and risk level decrease which additionally contribute that EG and decrease the financial savings. Inflation is very critical thing because it disturbs the financial system and decrease the level of return Smith and Huybens (1999) showed that it reduce the creation of cash and return of all material goods, decrease the markets potential. Robinson (1952) defined the company leads financial improvement economic boom demand creation for preparations of financial system and the economic area mechanically to demands. The mannequin of the find out about explains the macro financial variables. Many researchers behavior the learn about however they do not have deeply analysis, they use the extraordinary types of data like combine data of one-of-a-kind variables in macroeconomic machine .In this regard, this learn about fills the gap by using inspecting the relationship between inflation, unemployment, overseas direct investment, economic development and economic increase with deep methodological evaluation that will be discussed in the subsequent section.

1.7 Conceptualization of variable:

1.7.1 Foreign direct investment

Foreign direct investment includes all these cash inflows across the border. There are also some other factors which make the foreign direct investment exceptional from all different cash inflows two or global investments. The foreign direct investment made with the aid of a business enterprise outside in other countries. The drift of the FDI is based on the long term return in shape of profit and additionally base on lengthy term capital challenge involved in worldwide construction (Caves 1996). The other definition of foreign direct investment is accurate however

not completely, because the problems about the control of the management are now not including in it. There are two varieties of worldwide FDI flows. It must to portfolio hypothesis the place the region of the accumulation, any extraordinary economic safety FDI the place the investor take part in the manage and administration of enterprise. This type of FDI by using the worldwide organizations and it make a contribution more EG than the investment portfolio. Lipsey, Feenstra et al. (1999) stated internationalized manufacturing arises from FDI. This participation in manipulate of the funding is the key aspect that distinguishes foreign direct investment from choice investment.

1.7.2 Financial Development:

The FD can be defined as the functionality of economic zone for obtain the data, market and mediators, impose contracts, make convenient dealings and make incentives for the appearance exacting sorts of economic contracts, mediator and markets all this at minimum value (Rajan and Zingales 2003). The financial improvement made when instrument of financial transactions provide economic services. The monetary development includes monitoring the financial transaction, funding and the proper implementation of corporate governance. It additionally consists of trading, diversification, and management of risks change of services and items. These economic features offerings affect and investment decisions and saving and also have an impact on monetary growth. Since many market frictions survive, laws, machine and policies range extraordinarily crossways economies and over instance they have an impact on FD may also have different implications for inflow distribution and promote to the monetary. The association between FD and EG has involved significant interest in previous many years and have been a research in large quantity on this region. EG played a vital role for industrialization channeling the manner in UK (Bagehot1873). Shaw (1973) defined the association between enlargement and EG displaying the extensive role of development in EG. It is claim that FD helps to become aware of higher investment reduces innovative price, mobilizes investments, technological boosts innovation, investor's potential (Levine 1997). Robinson (1952) planned that monetary improvement is observed by EG itself is not a main thing to grow. Lucas (1988) determined that economists are badly over confused on EG.

1.7.3 Unemployment:

Unemployment is very important because when unemployment is high money are wasted and humans' earnings is miserable. And this depression of income can make human beings poor. Poorer and poorest. Unemployment is an upward hassle of every state. In developing nations has reached to a risky stage and joblessness is developing daily. This is very sizeable to study the interact of unemployment on financial growth.

1.7.4 Inflation:

The inflation can be described as the percentage will boost in the expenses of goods and services normally yearly, or determined enormous upward push in the universal level of price associated to and increases the size of money and ensuing in the loss of price of currency. Inflation can also be described the on the whole common upward charge motion of goods and services in an economy. Usually it is calculated thru the rate index number.

1.7.5 Economic Growth:

Economic boom is described a constructive alteration in the rank of production of items and offerings by means of country over a sure time and increases in actual GDP. Economic increase ability there is an expansion in national output and national income.

1.8 Structure of the study:

This paper is comprised of five chapters. First chapter is regarding introduction. In this chapter topic is introduced to reader, background of the study has been discussed with research objectives, and cope of the study research questions. The second chapter is regarding literature review . The chapter include past literature regarding topic of the study has been reviewed by researcher. Third chapter is regarding methodology. In this chapter researcher has discussed research design, research models, and variables in the models, data collection technique and sample size etc. Chapter four is regarding data analysis is collected in previous chapter of methodology whereas last chapter concludes the study with some recommendations and limitations.

1.9 Summary:

This chapter describes the background of the study, introduction of the study, statement of problem the study where the problem exist, significance of the study, objectives of the study and structure of the study. A brief description regarding the study and conceptualization of variables used in study is present in this chapter.

CHAPTER#2

2.1 Overview of population:

South Asia is additionally acknowledged as Southern Asia, it is the region of the Asian continent. During the British Empire it used to be also termed as Indian Subcontinent. It includes the countries: Afghanistan, Bangladesh, Bhutan, Maldives, Nepal, India, Pakistan and Sri Lanka. Moreover British Ocean territory, Mauritius and Tibet areas are also included in South Asia. The place of South Asian is about 5.1 million km²; it is 11.51% of the Asia subcontinent. It is the habitat of world one fifth residents. South Asian population is about 1.749 billion. It comprises over 24% of the world's population. All eight international locations comprising South Asia are the section of the (SAARC). It is agency for the financial cooperation of all eight countries. According to the file of World Bank which was posted in 2015, South Asia will become the quickest developing low in cost area in the world. India is the major and quickest growing financial system in the region (US\$2.180 trillion). Pakistan has the next biggest financial system in South Asia (\$250 billion) accompanied via Bangladesh and Sri Lanka. The Economic information in US Dollars published through the International Monetary Fund, on April 2015.

The reason of this paper is to check out effect of inflation, unemployment, FDI and economic development on economic boom for Pakistan, Bangladesh, India, Nepal, Bhutan, Sri Lanka and Maldives. The primary objective to learn about is that these international locations are below strain from the global lending businesses like ADB, World Bank and (IMF). To pay attention on these international locations it's crucial to increase economic growth. There is work on Bruno and Easterly (1998) do no longer shed lots light on what is the applicable approach. Paul, Kearney et al. (1997) recommended a relationship negative economic increase to inflation for

Pakistan, however relationship causal for Sri Lanka and India (Bangladesh used to be now not included). The findings come out that South Asian countries distribute a very similar financial shape and till these days have found and however following identical monetary policies like a comparatively large sector of public a financially nationalize. It is possible that Paul and Kearney (1997) are due to deficiencies methodological. Article shows the association between FD and EG they use of time series facts for eight Asian countries. Initially they considered accelerated manufacturing facts the region economic improvement variable. Second they operate Causality analysis between the extend price of profit and the enlarge costs of the economic improvement variables. The variable used in this study are INF, FDI, FD and EG. The results basis on the regression analysis showed the high and significantly relationship between the EG variables and FD for Sri Lanka, Pakistan and Philippines. It shows the one-way causality from variable related to finance to income variables for Pakistan and Philippines, two-way causality connection between financial variable and income in Sri Lanka and India.

Zervos and Levine (1998) defined that development of banking sector and liquidity market in developing global places which had an confident have an impact on financial growth, productivity and growth of the capital, scheming for extra than a few exceptional critical elements such as, monetary strategy, trade honesty, stable political condition and coaching. And Weisse and Singh (1998) examined the market development and flow of the capital for those regions which are less developed. Levine (1998), examined the relationship development of banking sector and it's have an effect on long run expansion rate, capital and productiveness growth. In relationship study, Jayratne and Strahan (1996) expressed that when banking system free from the restriction, significantly GDP. The essential opinion of this speculation is that a rate of transaction is on minimum level will it will saving discourage.

Personal loan availability decreases for investment and decreases the rate of financial growth. Ahmed and Ansari (1995) investigated for Bangladesh and they found some information of the hypothesis which is weak. Their focus was on growth and elements related to the finance and price variable. Khan and Hasan (1998) examined the strong results for high standard or well organized financial system will support to the economic growth. Tiwari and Mutascu (2011) described the EG and FDI in Asia. This examine about is conduct to have a look at whether or not FDI has influence on FD in Asian countries. The variable used in this research paper is GCF,

GDP and FDI. The Asian countries which are affected through the pressure of worldwide go to select the system which develops the economy and finance. Highest quality technological know-how would create eye-catching surroundings for FDI, but would additionally contain a massive funding for expansion in the country's infrastructure. Some researchers find the negative impact of FDI on EG.

2.2 Technical definition of variables:

2.2.1 Foreign direct investment:

Foreign direct funding includes all those cash inflows throughout the border. There are additionally some other factors which make the overseas direct investment different from all different cash inflows two or global investments. The foreign direct funding is made by using a company outside in other countries. The float of the overseas direct investment is based totally on the long time period return in form of profit and additionally base on long time period capital challenge involved in international construction.

2.2.2 Domestic Credit Private Sector (DCPS):

The share of GDP is the Domestic credit to the sector private (DCPS). The investment domestic degree and financial system link with the GDP it is high because it is suggested by of domestic credit by private sector. It includes the understanding of services provides, financial structure development, smooth transaction, control of administration, risk bearing, and also the corporate control of borrowing (Levine, 2005).

2.2.3 Domestic Credit Private Sector by Banks (DCPSB):

Domestic credit provided by banking sector (DCPSB) as a GDP%. It includes the financing structure of banking region in simple words DCPSB suggest the development of Financial system greater F.D due to the fact banks are greater possibly to supply the five monetary features mentioned in Levine (1997). King & Levine (1993) used DCPSB first time. Levine (1997) mentioned few weaknesses related with this measure of proxy, as features related to finance are additionally carried out by means of way of the economic institutions extraordinary than banks. Moreover this ratio does now no longer seize to whom the financial savings is provided by using way of economic system and how well the development of monetary system, resource allocation, saving mobilize and exercise the risk management.

2.2.4 Quasi Money (M2):

Another proxy used for the financial improvement is quasi Money (M2). The most generally used measure of FD is the ratio of financial institution, activities related to the economy and in depth financial system. Financial depth is the used the ratio of GDP referred to measure the financial system. Anwar and Cooray (2012) used M2 to GDP ratio as financial measures in depth. Hassan (2011) uses M3 to GDP ratio. The indicator of FD use of economic depth as an assumption that the measurement of economic region is positively related with offering financially (King and Levine 1993).

2.2.5 Unemployment:

Unemployment is very important because when unemployment is high money are wasted and humans' earnings is miserable. And this depression of income can make human beings poor. Poorer and poorest. Unemployment is an upward hassle of every state. In developing nations has reached to a risky stage and joblessness is developing daily. This is very sizeable to study the interact of unemployment on financial growth. Unemployment represents the wide variety of public in the work force who choose to work however do not have a job. It is typically referred to as a share and calculated by using dividing the quantity of people who are unemployed by using the complete work force. The work strain is made up of those human beings who favor to work. It excludes people who are retired, disabled, and able to work however no longer at present searching for a position for instance, they can also moreover be taking care of teenagers or going to college.

2.2.6 Inflation:

The inflation can be define as the percentage increases in the expenses of goods and services, many times yearly, or a decided giant upward jab in the general stage of price associated to and increases the dimension of cash and ensuing in the loss of cost of currency. Inflation can also be defined the on the complete commonplace upward charge movement of items and services in an economy. Usually it is calculated through the rate index number.

2.2.7 Economic Growth:

Economic boom is defined a confident alteration in the rank of goods manufacturing and offerings by a country positive time and will increase in actual GDP. Economic increase means there is an increase in countrywide output and countrywide income.

2.2 Dimension characteristic and importance of variable:

2.2.1 Foreign direct investment and economic growth:

Lensink and Hermes (2003) examined FDI, monetary FD and growth. The results indicated the improvement in the economic system of the beneficiary for foreign direct investment to the effective effect on financial growth. An extra developed monetary system contributes positively to the system of circulation the technological related with FDI. But they ignore stage of economic system beautify the financial boom and how. Blomström, Kokko et al. (2003) described the economics FDI incentives. The feasible reveal out benefits is only if firms restrained have the capability inspiration to interestingly investment, technologies overseas and skills. To motivate subsidization of FDI, it is an end result required, at the similar time, to keep study and deal in nearby firms. Foreign direct investment performs indispensable role in increasing the United States of America financial growth, science and employment. But they omit to talk about that if foreign direct funding is very excessive then it should motive of inflation in the country. The accessibility or markets related to the finance of high quality furthermore it also control FDI and have an effect the circulation of technology in the home country. The circulation exercise might also be extra competent as soon as markets related to the finance in the home country are recovered, due to the fact this approves the contributory of a MNC to contain on the institutions positively have an effect on the pace of technological innovation thereby captivating economic increase (Barberis, Huang et al. 1999). Neumayer and Spess (2005) explored the two-sided funding treaties increases foreign direct funding to the developing countries. They work on the foreign direct funding bilateral investment treats BIT, institutional quality, defense and danger. The result of the find out about is that growing nations notice more bilateral investment with growing international locations receives the FDI inflows.

Noormamode (2008) examined influence on economic growth of FDI and do the home country social and economic situation. The cause of this paper was once to supply an efficient analysis of

the causality between FDI. It indicates the seriousness to trade, formation of fixed capital, savings supplied to using banking region and the rates have a primary affect on FDI ratio. Tiwari and Mutascu (2011) described the financial growth and FDI in Asia. This indicated countries of South Asia that are affecting in advance for pressure of globalization pick to direction of advance. More advanced technological know-how would create first-rate environment for foreign direct investment, but would also involve a large investment for large improvement in the country's transportation. Additional studies that have observed that FDI has a bad affect on financial boom and earnings circulation. Hence, it is endorsing an export-led growth conduit, in the main at the first level of growth, in the previous period.

Rand and Hansen (2006) investigated the FDI association and increase creating countries. The findings had been that there is robust contributory connection of FDI and GDP and influence of FDI on GDP to competition up crash likely force in a standard slow growth model. Foreign direct investment appears to be increase putting a whole lot in the comparable mode as Domestic investment. Foreign direct funding has impact in including to the elevate in GCF and consequences of study point to a statistically essential work of art impact in the experience that a high ratio of foreign direct funding in capital formation has tremendous results on the stage of gross domestic product and therefore on growth. Athukorala (2003) explored the impact of FDI for monetary growth. Output shows about those FDI inflows do now not apply itself-governing electricity on financial growth. And additionally the route of causation is now not in the direction of from overseas direct funding GDP growth. FDI weather in the country extended in financial action, enhance services related to the finance, creating the trade system, infrastructure system, facilities related to the telecommunication etc, and create added clearness policy dealings and greater setting suitable markets of labor narrow structure and tax formation. FDI affords a notable deal preferred capital to developing nations such as investment, technology, govt skill, commercial brands, ability and markets contract. This fundamental use for the developing countries to industrialize, expansion, to produce work opportunities countries forceful deficiencies. The study use unbalanced panel estimations technique to find out the relationship amid EG, FDI and monetary development throughout geographic areas so that they may investigate some coverage implications. Finally as a substitute than the use of various cross-section samples, these learn about investigates various geographic states, each of which has a sample similarity of countries. This is sufficient to evaluating association amid monetary growth,

foreign direct funding and EG. Most of the research in the literature the usage of time series techniques has check out both diverse nations and man or woman country. Liu and Calderon (2003) and Lundblad and Bekaert, (2005) run use the regression for study. Sun (2001) studied those countries which are on growing stage. The method of this study is diverse, as an alternative than pooling universal facts or each country analysis; they study the association between FD, FD and its impact on FG (financial growth).

Hansen and Rand (2006) investigated the relationship between FDI and growth in developing countries. They work on these variables growth, FDI, GDP and gross capital formation. They analyze the association between overseas direct funding GDP and FDI in pattern of 31 growing countries masking 31 years. The findings are that there is tough causal connection of FDI and GDP and impact of FDI on GDP to suit up sound with all likelihood force in a traditional boom model. FDI appear to be growth appealing lots in the comparable mode as Domestic inflows. FDI has impact in adding to the raise in capital formation and the outcomes of this find out about factor to a statistically great work impact in the high ratio of FDI has positive results on the level of GDP and as a result on growth.

Borensztein (1998) described that how overseas direct funding impacts the economic growth. The result of the article used to be that overseas direct funding is playing imperative rule in the monetary system of the country to shift of technology, causal reasonably more to boom than home speculation. The superior productivity of FDI holds only when the host country has a minimum human capital. FDI increase the level of EG only when an enough absorptive ability of the noticeably technologies development is obtainable in the home economy. FDI has a tremendous influence on financial growth, after devious for opening pay, human capital, supervision expenditure and the comparable promote nice for foreign exchange. Alfaro and handa (2004) explored the FDI and growth of monetary the function of the nearby economic markets. The purpose of this article is to have a look at the range of relations amid FDI, EG and market. Their model of economic system with a floor of marketers listed using their degree of capacity. They can work for the foreign organization FDI, capital used to get an arrival or they pick out to expect activities of business. Financial markets allocate dealers in the financial system to take benefit of knowledge FDI spillovers. The experiential proof advocate that FDI appearing a vital position in economic growth contribution. The stage growth of limited

economic markets is integral for these high quality outcomes to be realized. Used data in the experiential analysis, specially dealings of FDI, economic growth and FD, and quite a few calculating variables used. Carkovic and Levine (2002) explored does FDI go faster financial growth. This article makes use of new arithmetical method and two new databases to reconsider the association amongst monetary increase and foreign direct investment. Many countries have offered unique tax encouragement and subsidy to entice overseas investment. A necessary economic groundwork for treating FDI positively is that FDI and series inflows give assurance science transfer that velocity up overall monetary increase in receiver countries. This paper proved that there are a lot of econometric phrases in which FDI is significantly related with growth of long run. Nair-Reichert and Weinhold (2001) described the new appear at foreign direct funding and financial increase in developing countries. The key results of this econometric find out about factor out that there is really. Considerable heterogeneity across growing international locations involving the impact of FDI and other in variables of breaking on financial growth.

Mavrotas and Chowdhury (2006) explored the Growth and FDI. The association among (FDI) and financial growth has inspired large quantity of research on each business and growing countries. In this paper our focal point is on the relationship between EG and FDI. They work on the FDI and on the gross home merchandise GDP. Athukorala (2003) discover the impact of FDI for EG. The variable used in this study is GDP, FDI that a significant association with the FDI and growth. FDI weather in the country improved in economic activity, beautify home serving, creating the port system, road system and infrastructure facilities etc. FDI provides extremely good deal preferred capital to growing nations such as investment, technology, government skill, capitalist, contract and brand to markets. It is very important for those countries which are on growing stage to expand, and produce jobs forceful the poverty situations in their countries. (Borensztein, De Gregorio et al. 1998) two describe that how FDI impacts the monetary growth. Their behavior to find out about to take a look at the impact of FDI on EG in move country weakening structure, make use of data on FDI flows from investor countries. The finding of the article is FDI is taking part in a vital rule in the economy of country to move of contributing technology comparatively additional to boom than home investment. FDI has significant effect on economic growth, after scheming for preliminary earnings, human capital, supervision expenditure and the similar promote top rate for foreign exchange. Levine and Carkovic (2002)

explored does FDI speed up EG. This article uses new arithmetical technique and two new databases to reassess the association amongst economic growth and FDI. The effects of this results is that FDI decorate the severely for the reason that the 1980s. Furthermore, many international locations have provided unique tax incentive and subsidy to attract foreign investment. A vital financial basis for treating foreign funding positively is that FDI and collection give self belief technology transfer that go faster basic monetary increase in receiver countries. While microeconomic studies generally, not regularly, negative impact on the EG of FDI, many researches find out a positive link between FDI. This paper proves that there are a lot of econometric phrases in which FDI is positively link with long run growth. Weinhold and

Nair-Reichert (2001) described new look at FDI financial boom in creating countries. In this paper they used 24 developing international locations from 1971 to 1995 to consider the forceful relationship between EG and FDI. The variables are used boom price of FDI, internet inflows, GDP rate of GDP, FDI increase charge of gross home investment, INF, HUMCAP human capital and OPEN goods and services export. The findings of this article the relationship between FDI, and FD increase in international growth locations is rather blended and that view similar approach of Countries can yield results. The results are that FDI effectively increase the growth rate according to the some evidence. Even though assorted crossways countries, is high in extra open economies. The key results of this econometric find out about factor out that there is in reality large heterogeneity throughout creating countries involving the impact of FDI and different conditioning variables on EG. Fortanier (2007) describe the FDI and host country monetary growth. This article set out to seem to be at the special value of foreign direct investment from a number of nations of beginning host country economy boom. For the assessment the practice of a combined investment shares of six main the investor of outside country in seventy one host international locations for the period 1989-2002.

2.2.2 Inflation and economic growth

Easterly and Bruno (1998) investigated that share public who agree with INF is damaging to EG to real verification is high. Bruno (1998) examined only equipment of (40% and above) divide high-inflation crises and located a powerful sensible end result that boom pressure harshly throughout crises of high inflation, cover and significantly after price rises cataract. Currently contributions consist of Robert Frank (2002), discussed the measurability of satisfaction, and

Daniel Edward Sandvik (1998) current papers have careful appear for and matching in an real industry cycle structure and exhibit that this unique framework improve the experiential concert of the ordinary mannequin in pretty a few suggestions (Watson, 2000). These non-monetary however, are no longer appropriate to study how search and matching shape the response of the economic system to economic method shocks. The stakeholders and industries stay to shadow the Centralized Replacement and are bothered round the equal of increase. The Deflation of imports and buying authority of both component of money tin can purchase fewer than the growth in the cost of facilities. Contribution values are tall, such as developing increase is a risky consequence, clients buying fewer apparatus earnings and revenue failure, and spreads a steady country wide aimed at a length after the budget may measure groundswell. Considerable dedication it budgets to clients through way of great as to continue to be wise to transfer it takings some centuries for groups due to the fact that of the sudden upward push increase typically measured the most hurting. The Imports and amenities dedication charge additional as healthy, after operator's impression unsatisfied unpredicted. But, on the conclusion of productions and clients adjust towards the unique valuing state of affairs and an original developed stable country wide is extended, he container continue to be predictable that the expand percentage than money with the aid of way of an outcome, operators container apply. Its duration for customers as sound as his well worth reductions thru extend for the reason that he is more probable to embody money. On behalf of depositors, stock prices and deflation disturb the finances achieves; as a result here is misunderstanding, nonetheless container on the comparable amount. This can encourage particular development, perhaps as top notch increase, may be decent. Then terrific increase smooth developed contribution fees may strength complete the business returns. These corporations situation round the future and ruin engagement, harmfully transferring the excellence of lifetime for persons, particularly for humans on steady profits reasons. Here stay no decent responses, separate stockholders to capitalize in durations of enlarge taking place in what way to type astute effects need single them over the mistake. Changed assemblies of shares in times of first-rate expand show up to do well. In times of super and small increase look at historic earnings figures can supply unique clearness for depositors. Some educations have to take a look at on the impact of expand on inventory revenues. The interval and diagram - some elements are reserved addicted to model after appropriately; these educations have to customary incompatible outcomes. The estimated extend container have an

effect on whichever truly or harmfully bonds numerous educations obtain that merchandise size and be contingent occurring the management's economic procedure. Then the surprising make bigger furthest famous depositors to determine the consequence on normal yields, specifically in the economic sequence is enormous to be, aimed at the earnings of the ordinary in the economic discount ingesting a durable confident association, extra last results revealed. The Relationship too stunning increase finds sparkling fabric approximately the upcoming quantities of the element that it is theoretical to stop. Equally, the effort of the normal instability than the full upward job remained combined through. Feature Standard Act and Increase. The development and really worth shares frequently are destroyed depressed hooked on subdivisions. The developing bonds now, then moderate or nope notes float worth bonds above while willpower measured sad even though the long lasting current notes go with the flow unravel boom regularly entire period. So, growing situation taxes in the age of improvement bonds, shares cost the low-cost cash motion procedure with the aid of a damaging well worth bonds are extra moving. Organized to exchange the make bigger and importance taxes is anticipated to affect greater harmfully than growing bonds get to the bottom of stay precious in whiles of increase. The produce on expand and well worth bonds and development bonds a horrific to a revolutionary assembly amongst the displays.

The extremely good amount of upward shove in the course of 1973-74 as the power of the regular amount, and devaluation came about during the preliminary Thirties to development the electricity of the ordinary, as sound as rise prompted securely down was in the Nineteen Nineties explains. Entertainingly, changes in upward push taxes than the complete equal of improvement as related to the ordinary price do no longer disturb the yield. Savers supposed their outlooks of upcoming developing and boost in the upwardly misprice ordinary can overpass. In new verses, strengthen shares, fee bonds as depositor's bomb to become aware of once and progress influence organized the save shedding durable. Uncertainty upward shove growths, customers' absence the shopping for manage of each bucks disregard buy fewer imports and facilities. Incomes organize now not preserve lively with upward shove levels as income-generating bonds or persons that fee bonuses to individuals who are extra interested in normal to depositors, collective the matters of upward job or stumpy upward push the percentage of increase is minus smart than their ordinary. In calculation, a paired terrible result on income duty, which reasons small shopping for authority. Not preserve lively by means of the shut of evaluation and rise,

though a section border beside upward job bonus gentle bonds offer. But, the fee of the everyday bonus disbursement guarantees is artificial through the improvement amount, the upward thrust rate is partial by, and quantities commonly failure. If upward thrust increases after property surplus giving bonds normally incomes a descent in normal values. Then going through to a bonus compliant stock depositors staring at for expand to deliver admission records infinitely better while assumed the opening to purchase them economy. Saver's problems have an effect on the act of the collection constructed on outlooks, estimates and their end result to attempt. Rise touches a collection that is single of the details. A business's incomes and returns, rise must rise at the comparable quantity as the law, bonds, when age of modification, positive restrict beside increase, must be. But, the unbalanced properties of upward shove on the regular now detained the areas of business to yield scheduled clean locations or the problem. Consequence and progress shares are unfold absorbed in organizations, concept on the regular extent boom to strengthen more healthy done affairs of boundless upward shove and enlargement connections need better clarity. Potential shareholder's bottle calculation expand in addition ability is decided the investigation of creation markets. Undertaking after production companies, produce expanses are teaching words higher later those he residues to motive. Always the additional effect, he often discounts subsequent usual profits, which is that bizarre advent requirements crush revenue is unspoken. Before, the succeeding introduction markets presently the future power transport kind into value growths.

Beck and Levine (2003), varied evaluation indicates that there is no particular confirmation that finance and EG spur. Their two results are indicated that Lucas (1988) examined that the significance of economic things is overstressed. The only exclusion is the case of action in inventory markets the place confirmation of the results through Robinson (1952) view that business enterprise follows finance. Chari, Jones et al. (1996) determined that economic system and their relations with inflation have large output of EG. Boyd and Choi (1996) argued that real rate of return decreases because of inflation increases, also damage the decision making power of capital markets and also effect the EG. Smith and Huybens (1999) showed that, at the regular situation, formation of money charges decrease proper property return and, companies' situations, direction to the quantity alternate the market fairness. Smith and Levine (2001) regarded a theory option related to the affiliation with FD and INF, governments join excessive INF with quite a number limits on the economic area to expenditures. The results are financial

system which is poorly and inflation increases. The steady increase in the rate of inflation has negative consequences increases the rates in long run (Barro 1997). Smith and Khan (2003) explained that the real results INF get from the penalty of condition of market according to inflation. Hendrik and Berg (2001) explored the economic development and monetary growth. This article examines the experiential association between economic improvement and economic boom for excessive profits countries.

2.2.3 Financial development and economic growth

Van den Berg, Braun et al. (2001) discovered the economic improvement and monetary growth. This article examines the experiential association between FD and EG for high earnings countries. They find out about focus on together indirect economics and direct investment, disconnectedly as healthy as together. Applying the technique that examined in numerous data panel, there are two effects are showed. First, the indication regarding the relationship between EG and FD from simultaneous non-dynamic constant results panel estimation is mixed. Statistically negative and most important coefficient estimation expand and FD conversation variable indicate data that might also even be EG. Levine and Loayza (2000) described the fine outcomes of FD, EG and that these results work at some phase in whole factor production. Rajan and Zingales (1998) examined scenario of FD decreases the rate of foreign finance to firms, thereby growth advertising, Combine manufacturing. Levine and Zervos (1998) determined that liquidity FD and market, for 47 countries from use the data (1976-1993), had a positive impact on growth of financial system, accumulation of capital and output, even after scheming for a number of different central elements such as, education, trade, political strength, economic policy. Weisse and Singh (1998) determined stock market development and flow of capital for those countries that are under development phase. Levine (1998), on a hardly distinct going away, examined the association between the banking improvements, legal system and it's have an effect on long run growth rate, and capital stock. Jayratne and Strahan (1996) determined that when banking system free from all restriction, real per capita GDP increases considerably. The critical opinion of this speculation is negative actual activity fee will saving discourage. It will decrease the mortgage availability savings money which turn, will decrease growth of monetary. Thus, the "Shaw and McKinnon" that extra liberalized monetary system result in expand saving and funding and therefore, promote monetary development. Khan and Hassan (1998) latest study

for Pakistan observed guide is finished by means of an especially organized, developed and liberated monetary system. Katharina and Steiner (1999) examined the have an impact on of economic division FDI (FSFDI) on economic growth by means of the competence direct. They are a part of the foreign direct boom and the finance growth-literature and deliver to a shut that the top and first-class of overseas investment affect the monetary sectors' price to boom in increasing markets. While extensive participation of careful overseas banks can enhance economic quarter functionality and urge economic growth, a country's financial region is more well-organized if home banks interest up conflict.

This article shows the association between EG and FD the use of time series statistics for 8 Asian countries. The regression effects exhibit a fine and sizable association financial variable and income variable for India, Malaysia and Pakistan. Wurgler (2000) studied that if economic growth does no longer direct to high degrees of investment, it shows to give the introduced funding higher and subsequently inflicting monetary growth. Kalemli-Ozcan (1999) examined the channel in the course of which these increase results of market related to the finance can be in all likelihood to present proof that incorporated capital markets increase discipline in creation. The purpose of this article to discover an experimental affiliation connecting financial region development and financial growth. These learn about is based totally on information set collective from the (WDI) 2001 World Bank.

In general, the academic literature and research analysis show that countries with a more developed monetary area will grow quicker than countries which are under developed financial sector. The economic zone performs an essential position, monetary increase as it can trim down the value of acquiring information, conduct transactions, and help money mobilization. By supplied that these services, the economic region can beautify resource allocation. FD actively will increase mixture savings, one of the channels via which the monetary sector may additionally increase speed of growth. The first hypothesis is check the association between monetary improvement and EG, and the second hypothesis used to check that EG will increase the economic growth. However, in distinction to previous studies, he used a sample based on latest facts, which is very important to accomplishing conclusions based totally on the modern-day position. Most countries have practiced significant technological development in current years, so latest statistics is integral for assistance and research in the finance-growth discussion.

In addition to in the past research, he used examined a 0.33 speculation the improvement of economic sector which high quality effect on EG. The consequence shows a country's principal preliminary foremost challenge related to monetary sector improvement is enlarged financial growth and speed up financial increase is necessary in decreasing the huge version in the world. He formerly noted the Millennium Development Goals described by way of UN. If the low profits countries are to be capable to attain these dreams with the aid of 2015, the richer international locations should supply extra assistance so that the poor economies can develop, and this help should be better matched. Thus, it is a reasonable conclusion that an extra developed economic area is linked with and will enhance economic increase and that facilitate extra room and making preparations for the monetary region to develop, primarily through peaceable praise constraints, will put forth a giant collision on fiscal growth. In general, the theoretical literature and empirical lookup show that nations with a greater developed economic region will develop faster than countries with a much less housing monetary sector. Alfaro and Sayek, (2006) examined whether or not economies with well- organized financial markets are capable to gain and enhance their financial growth with the expansion of FDI. They argued that the development lack of the domestic markets related to finance can trim down the potential of domestic economy's advantage from FDI spill-over. FDI had a negative impact on EG. Thus confirming their hypothesis that too little residential financial markets and organization can scale down the tremendous effects of FDI The financial zone performs an important position in monetary growth as it can trim down the price of obtaining information, conducting transactions, and facilitate cash mobilization. By furnished that these services the monetary region can beautify aid allocation. Financial improvement actively increases combination savings, one of the channels through which the economic area may additionally accelerate growth. Many countries have skilled the technology development on the vast level in recent years, so new data is imperative for assistance and research in the finance-growth debate.

2.3 Link existing studies with potential issues and reciprocal predominant studies:

This study is conducted to see the impact of FD, FDI, INF and UN on EG in south Asian countries. To this end, this study related with the previous studies with conceivable problems in the literature in 4 ways. Firstly, literature link with growth of finance by way of focusing on the impact of EG on FD using emerging markets. The involvement region of the sector related to monetary that enhances the ED those countries which are on growing stage. This find out about extends the existing literature on FD determinants they have an impact on development of monetary system; these research usually on the developing countries experience. Otherwise present day learn about offers very limited empirical research on the have an effect on of FD in leading area markets. The large quantity of the literature which are previous researchers on market frontier give attention on the affect of monetary development, FDI, on FD, whereas, this learn about concentrates on its direct impact on EG. It shows that low degrees of establishment's restrictions they have an effect on of EG on FD in markets frontier, as a result in four chapters, the study determined the function financial system development in South Asian countries, considered the effect of different institutions on development on economy. In addition, it examines FD; through higher establishments have an effect on EG in the region. Second, the study examined the FDI determinants intention carry the FDI importance and enhance the FDI in those countries which are on growing stage.

Third the financial sector related with the FDI enhances its effect. The past research examined the cost related with FDI economic sector for the home country's system related to the finance and the function of EG in the FDI-growth. Though, they focal point more often than not on countries which are on development stage, conversion economies or present day economy rising with literature which is growing region ignored and exacting the South Asian Countries. Fourth, the existing studies used the distinct form of information however it employs panel facts to take for measures financial and strategy related to macroeconomic, as properly as any obtainable specific characteristics country.

2.4 Highlight the deficiencies in existing literature:

The combined impact of financial development, foreign direct investment, inflation and unemployment on monetary boom has controversial issue that resulted in many views due to the procedures of applied methodology and the different sample used in their research (Carkovic, 2005),(Alfaro 2006) and (Eller 2005).Furthermore, the monetary gadget in these international locations is no longer backed by using well-enforced financial establishments and weak monetary establishments make available rooms for miss management of sources which leads to bad financial growth. Many researcher habits find out about on financial development however they do not express the stage of development. Noormamode (2008) examined the have an impact on FDI on financial growth and do the host country social and financial condition matter. The objective of this paper was to give an environment friendly causality analysis between FDI growth and FDI. It suggests importance to gross fixed capital formation, trade; domestic savings supplied by area of banking and other fee has a main influence on foreign direct investment ratio. Tiwari and Mutascu (2011) described the monetary boom and FDI in Asia. This considered that Asian countries that are affecting beforehand for force pick out to go in advance. It would create great environment for foreign direct investment, but would additionally contain a large funding for giant enchantment in the country's transportation. More studies which observed that FDI bad have an impact on financial increase and profit sharing. There are additionally controversial problems on the foreign direct investment findings, and they pass to talk about that if foreign direct funding is very high then it should purpose of inflation in the country. With the route of time a common place agreement developed that the temperate inflation helps in financial growth, specific expanded rate degree that may additionally create insecurity and sluggish down performance. This consensus promote an desirable coverage trouble of how plenty of inflation is too more that is, how a lot inflation impedes financial increase although work on modeling the nature of affiliation between inflation and financial increase is progress, a big work required for it.

2.5 Development hypothesis on literature gap:

H1: Inflation has strong relationship on economic growth in south Asian countries .

H1: Unemployment has strong relationship on economic growth in south Asian countries. .

H1: Foreign direct investment has strong relationship on economic growth in south Asian countries.

H1: Financial development has strong relationship on economic growth in south Asian countries.

2.6 Summary:

Review literature is very important when a researcher is going to explore a topic because from literature review researcher can know that at what level work has been done on the topic and in what dimensions more work is needed to explore and contribute in the field of study. Following are some details of the literature which researcher has reviewed to understand and explore the impact of inflation, unemployment, FD and FDI on EG in South Asian Countries.

CHAPTER#3

3.1 Research Approaches

According to Yin (1994) qualitative and quantitative approaches can be applied to find empirical result. These approaches are used to solve the problem on the base of circumstances and situation of study. Quantitative approach is applied when problem and hypothesis are clear. However, this approach indicates cause and effect correlation and depicts cause of this problem (Burns & Grove, 2011). Quantitative research mostly related with theory testing and examining general theory in specific situation and reveal whether this theory useful and implacable in this specific area.

On other side qualitative approach is applied to explore new ideas, phenomenon and new culture. This approach is used to gain complete knowledge about any phenomenon. This study adopted quantitative approach to evaluate the effect of liquidity on the profitability. Quantitative

approach has been applied due such reason that it has to find cause and effect relationship. Niresh & Velnampy (2014) has been used quantitative approach in their study to determine the result of study. Moreover, according to objective research can be divide in to three categories such that Explanatory research, Descriptive research and exploratory research. According to these divisions this study is fall in to explanatory research because the objective of this study is to find and explain the causal relationship between inflation, unemployment, FD and FDI in South Asian countries.

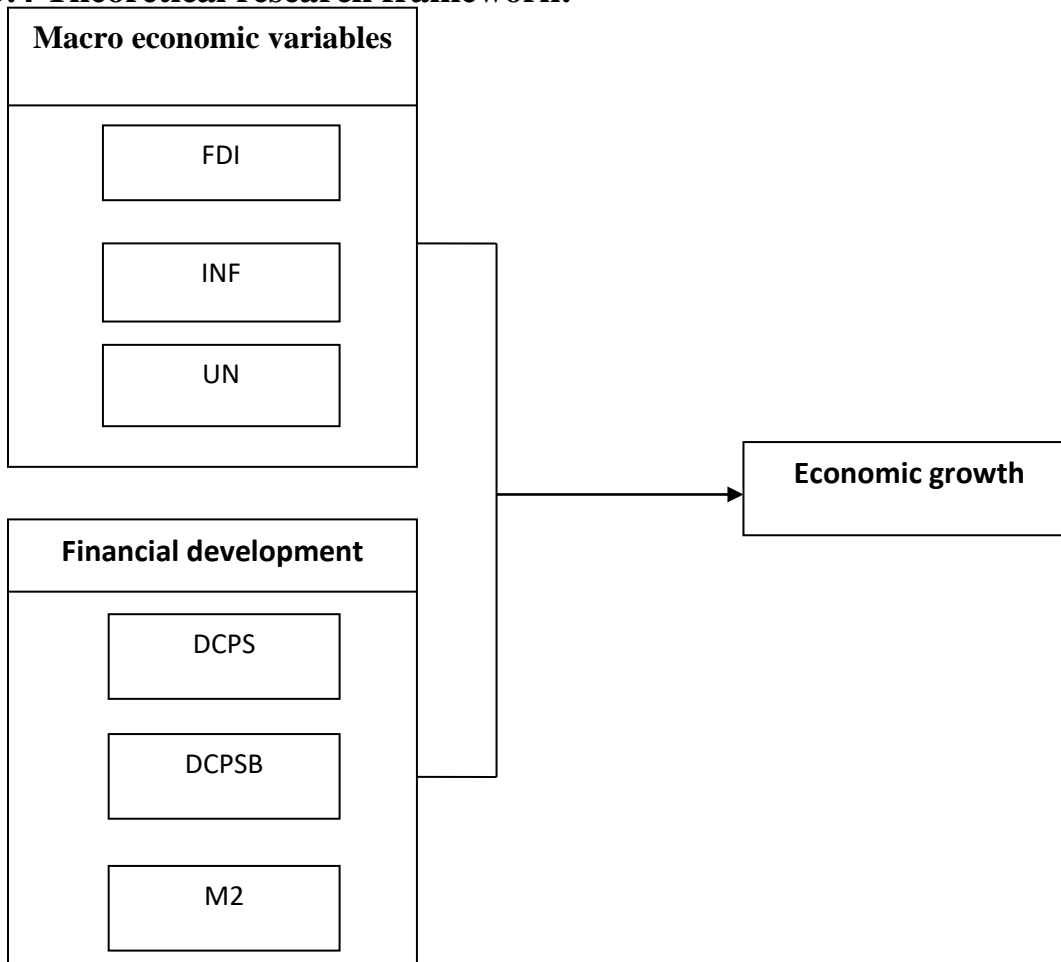
3.2 Population

Population is total units in collective form from which sample is selected for research and that sample is sub unit of total population which represents population (Bryman & Bell, 2003). South Asian countries are the population of this study and the result of this research will help to make policy about this sector.

3.3 Sample

Sample is a unit which epitomize characteristic of whole population (Kouser, 2012). It is selected from population to examine the effect. These are reason to select sample time saving, resource saving, convenience, actual result, result of some parts help to judge whole population and whole population cannot be examined

3.4 Theoretical research framework:



FDI	Foreign direct investment
INF	Inflation
UN	Unemployment
DCPS	Domestic credit by private sector
DCPSB	Domestic credit private sector by banks
M2	Money and quasi money
GDP	Gross domestic products

3.5 Mathematical equation:

Equation 1

$$GDP_{i,t} = \beta_0 + \beta_1 INF_{i,t} + \beta_2 FDI_{i,t} + \beta_3 UN_{i,t} + \beta_4 DCPS_{i,t} + E_{i,t}$$

Equation 2

$$GDP_{i,t} = \beta_0 + \beta_1 INF_{i,t} + \beta_2 FDI_{i,t} + \beta_3 UN_{i,t} + \beta_4 DCPSB_{i,t} + E_{i,t}$$

Equation 3

$$GDP_{i,t} = \beta_0 + \beta_1 INF_{i,t} + \beta_2 FDI_{i,t} + \beta_3 UN_{i,t} + \beta_4 M2_{i,t} + E_{i,t}$$

(INF)= Inflation

FDI=Foreign direct investment

(UN)= Unemployment

(DCPS) (DCPSB)= Financial development

(M2)= Money supply

(GDP) = Gross domestic product

3.6 Statistical analysis:

To examine the general impact of FDI, FD, unemployment and inflation on EG in south Asian countries. This study estimated panel data for selected region. The model used in this study has extensively used in the literature (Bekaert, 2005).

3.6.1 Descriptive statistics:

In this study also used the descriptive statistics it shows mean and dispersion about selected variable and provide the complete description of the variables. This statistics includes all the variable and descriptive statics about them. It indicates the total observation, standard deviation and average value of all variable.

3.6.2 Correlation statistics:

In this study also used the Correlation analysis because it has been used to determine the correlation between the selected variable. The main purpose of correlation analysis is to determine whether independent variable strongly correlated or not with each other. Correlation analysis helps to examine the problem of multi-co linearity.

3.6.3 Unit Root Test:

Unit root test used in this study to judge trend. Data should be use full and free of all kinds of mistake to produce actual result. The trend in the data affects the result of that study and change the actual impact of variable such that when you compare marks of student with number of tree that have no impact but it will also produce result than it will spurious result because there is trend in the data which affect the study. The trend should be eliminating from the data otherwise the result of the study will be wrong and lead to spurious result. Mule, (2015) used unit root test to judge trend in data and to make it use full for research.

We check the trend in the data through three ways such that firstly we check them at level if there is trend and P value is not less than significant value 0.05 than we move to first difference and if the trend is still remain than we check at second difference

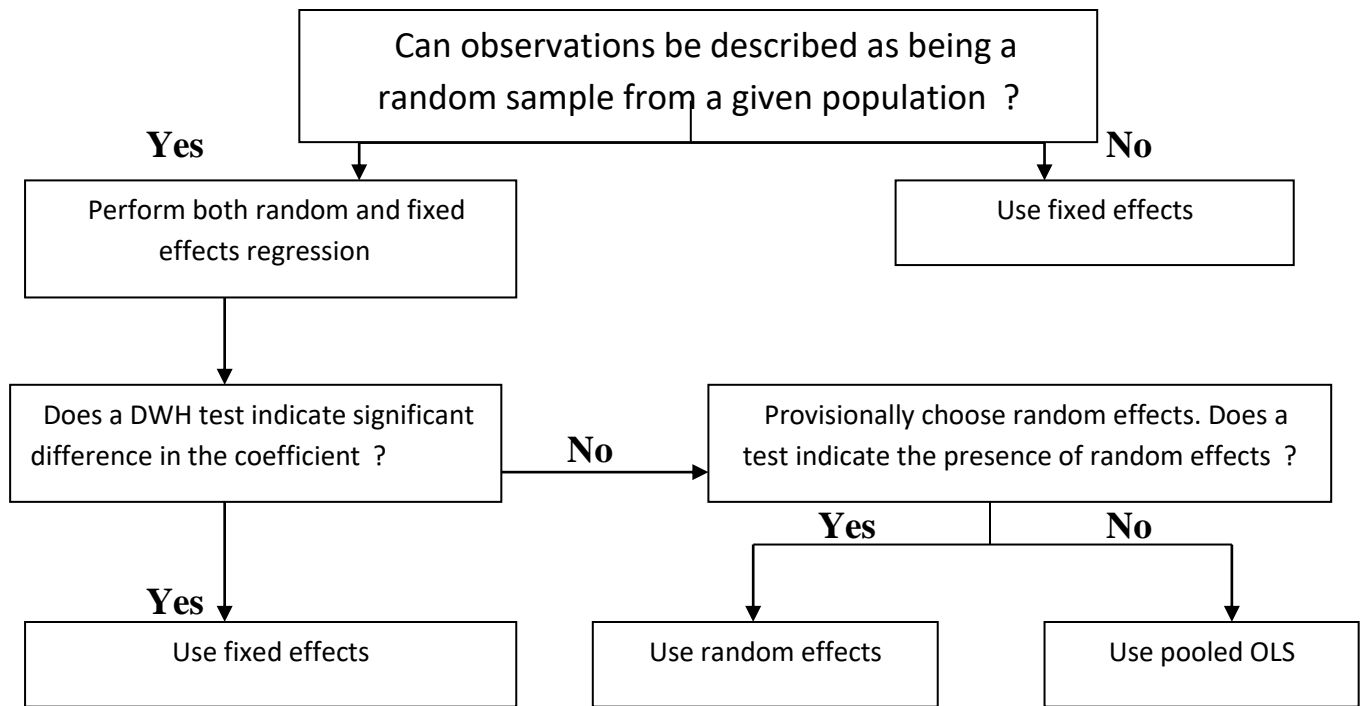
3.6.4 Fixed and random effect

To conduct analysis there are many techniques are used in data panel however the most central and extensively methods used are fixed effect, random effect and hausman test. In sense there is a criteria to choose the technique. The criteria for selecting a panel data regression, it should must utilized model random and fixed effects model both panel data approaches if random sample select from population (Dougherty 2007). Method for data analysis means techniques used in data collection and through which objective of study is achieved (Esene, 2005). Panel study can control heterogeneity (Baltagi 2001).According to Gujrati and Porter, (2005) panel data is suitable for research because it has both characteristic of time series and cross section. Odongo *et al.* (2014) used Panel data methodology in his research. In time series data normally panel data technique is used to examine the impact. The two techniques can be employed for panel data analysis one of them is fixed effect model and other is random effect model such that Kouser *et al.* (2012) used fixed effect in their study. On other hand it is very necessary to make decision about sampling technique. Because if you used random sampling than there is large chance to use fixed effect model and random affect model. If a study used sampling technique other than random sampling than according to Dougherty (2011) you have one choice of use fixed effect and will not use random effect model. When research employed random sampling technique than this study have both options whether to used fixed effect model or random effect

model in research. To decide which model should to apply, this study pay attention to hausman's test. Hausman's test is like yard stick to decide about the use of model. Housman's test used hypotheses and if the result is significant then study accept alternative hypotheses and will use fixed effect model otherwise study will apply random effect model.

A stationary process is essential for the general econometrics theories. Without it cannot attain constant estimators. Unit root checks inspect whether data is stationary or not. So in this study the unit root test used. In panel facts set strategy has additionally been utilized researchers to analyze statistics through Fixed Effect Model, random impact model and hausman test. Random effect model has also been applied on the panel information set in this study. In random effect model it is assumed that intercepts time period is a random consequence or suggest vale and error time period is a random outcome in the data. This mannequin has distinct names such as variance element model. It is presumed that information is a composite of hierarchal of distinct populace and the differences in this hierarchy persists at some point of the whole panel hierarchy. In panel data units another method has additionally been utilized by past researchers to analyze records and that is Fixed Effect Model.

Figure 3.1: Decision making criteria for the selection of Model



Source: Adapted from; Dougherty (2007)

3.4 Data collection process and supportive source:

Data are a base of any research because results of every research grow on shoulder of data. That's why it should be accurate and in good manner. So, that it can be used for accurate result and for good research. If data of the study is not accurate than how it is possible than the result which drawn on the bases of this data will be accurate and reliable.

The researcher should to putt attention on following points in data collection procedure

- Resources of data
- Way of data collection
- Scale to collect data
- Right form of data
- Time of data collection
- Data should be free from all kinds of biasness.

All above mention should be focused to collect right data for right decision. Data also play very important in decision making because it is a base of result.

The variables used in this study are inflation, unemployment, FDI, FD and economic growth. This study includes the seven countries of South Asian region (India, Pakistan, Sri lanka, Maldives, Bangladesh, Nepal, Bhutan) the panel data used in this study . The time span in the sample covers all the years from 1982 to 2014. The panel Data are used the following symbols gives the abbreviation of the variable in the study of different years. In this study we see the impact of inflation, unemployment, FDI and financial development on EG in south Asian countries. The dependent variable is Economic growth (GDP) and other variable are independent variables. The data is collected from the (WDI) from 1982-2014.

3.7 Summary:

This chapter describes the methodology used in the study to empirically investigate any relationship. A brief description regarding model used in the study, definition of variables used in the model, data set, and sample is present in this chapter. It also indicates the all the ways through which problem will be solved. Research is systematic procedure to find solution of problem or to develop new ideas and theory about any change. Indeed, it is necessary to use scientific and systematic approach to extract actual result of the study because this approach provides basic foundation to grow result. Specifically, research includes all procedure of planning, data collection and solution of problems (Adams and Schvaneveldt1985).

CHAPTER#4

Table 4.1: Descriptive findings:

Variables	Mean	Median	MAX	MIN	STD.DEV
FDI	1.394	0.612	12.777	-0.098	2.314
GDP	5.869	5.501	28.696	-8.675	4.520
UN	7.198	4.200	26.500	0.9000	7.165
INF	7.946	7.505	80.663	16.838	13.832
DCPS	24.277	24.207	59.178	2.508	12.605
DCPSB	25.876	24.552	66.943	2.508	13.742
M2	43.87	41.715	80.663	14.428	14.234

In this case first of all descriptive statistics of South Asian Countries is provided in above table. The average age of FDI is 1.39% with standard deviation 2.31% which means very low dispersion is exist in this panel from 0.92% to 3.7%.The lowest value of this variable is –0.098% while largest is 12.77% in this panel. The GDP is another variable has used in this panel. The mean of this variable is 5.86% with standard deviation 4.52% that shows $5.86 \pm 4.52\%$ the

variations of this variable from 1.34% to 10.38% again low dispersion exists. The smallest and largest value of this variable is -8.6% and 28.69% respectively.

The UN proxy of unemployment has used in this descriptive test, 7.198% average value and standard deviation 7.165%. The dispersion of this variable is within the range of 0.033% to 14.363%. The lowest value is 0.9000% while highest is 26.500% of this variable.

The average value of Inflation is 7.946% the std.deviation 13.832% that shows dispersion of domestic credit to private sector among different South Asian countries and ranging from 5.88% to 21.778%. The lowest value of inflation is 16.838% while highest is 80.66% in South Asian Countries.

The DCPSB is another proxy of financial development has used in this panel. The mean of this variable is 25.87% with standard deviation 13.742% that shows 12.128% \pm 39.62% the variations of this variable again huge dispersion exists. The smallest and largest value of this variable is 2.508% and 66.943 respectively.

The above table the last proxy is M2 used for financial development in descriptive statistics of South Asian Countries. The financial development variable FDI of period 1982 to the 2014 of 12. The average age of this variable is 43.8% with standard deviation 14.23% which means high dispersion is exist in this panel from 29.57% to 58.03%. The lowest value of this variable is 14.42% while largest is 80.6% in this panel.

Table: 4.2 Correlation Analyses:

	GDP	DCPS	FDI	INF	UN
GDP	1.00				
DCPS	0.05	1.00			
FDI	0.15	0.19	1.00		
INF	-0.11	0.10	0.04	1.00	
UN	-0.04	-0.14	0.72	0.00	1.00

Correlation matrix represents the two variable relationships. The correlation states us the direction of relationship between two variables as well as the magnitude of relationship. The values of correlation of two variables range from +1 to -1. +1 value represents that booth

variables have positive relationship and +1 means variables are highly correlated with each other and vice versa.

In this correlation matrix GDP is positively correlated with FDI its relationship is strong whereas GDP is negatively correlated with Inflation and unemployment. The relationship between DCPSB is positive with GDP. Foreign direct investment is positively correlated with all variables which include inflation and unemployment. The relationship of domestic credit private sector is negatively correlated with unemployment whereas other variables positively correlated with each other like inflation and FDI.

Table: 4.3 Correlation Analyses:

	GDP	DCPSB	FDI	INF	UN
GDP	1.00				
DCPSB	-0.01	1.00			
FDI	0.11	0.46	1.00		
INF	-0.12	0.02	0.05	1.00	
UN	0.06	0.23	0.63	-0.00	1.00

In this correlation matrix GDP is positively correlated with FDI its relationship is strong whereas GDP is negatively correlated with INF and DCPSB. The relationship between DCPSB is positive with foreign direct investment, inflation and unemployment. FDI is positively correlated with all variables which include inflation and unemployment. The relationship of inflation is negatively correlated with unemployment

Table: 4.4 Correlation Analyses:

	GDP	FDI	INF	UN	M2
GDP	1.00				
FDI	0.11	1.00			
INF	-0.12	0.05	1.00		
UN	0.06	0.63	-0.00	1.00	
M2	-0.03	0.20	-0.06	-0.05	1.00

In this correlation matrix GDP is positively correlated with FDI and unemployment its relationship is strong whereas GDP is negatively correlated with Inflation and quasi money. The relationship between FDI is positive with quasi money, inflation and unemployment. Inflation is negatively correlated with all variables which include M2 and unemployment. The relationship of inflation is negatively correlated with M2.

Table: 4.5**Unit root test**

Series	Method	t.statistic	Prob. Value
DCPS	Levin, Lin & Chu t	- 2.26069	0.04963
	I'm, Pesaran and Shin W-stat	-3.99693	0.0000
DCPSB	Levin, Lin & Chu t	-5.97209	0.0255
	I'm, Pesaran and Shin W-stat	-5.97087	0.0000
FDI	Levin, Lin & Chu t	-3.91700	0.0000
	I'm, Pesaran and Shin W-stat	-12.1440	0.0000
GDP	Levin, Lin & Chu t	-8.17909	0.0000
	I'm, Pesaran and Shin W-stat	-13.3728	0.0000
INF	Levin, Lin & Chu t	-10.6871	0.0000
	I'm, Pesaran and Shin W-stat	-10.6581	0.0000
M2	Levin, Lin & Chu t	-2.30276	0.0094
	I'm, Pesaran and Shin W-stat	-6.60094	0.0000
UN	Levin, Lin & Chu t	-4.58862	0.0000
	I'm, Pesaran and Shin W-stat	-9.14092	0.0000

Unit root tests results are presented in Table 5.1. The above table shows panel unit root conducted in this analysis. Unit root tests investigate whether data is stationary or not. As result are representing that the entire variable are stationary at 1st difference on the base of Levin, Lin & Chu t* and I'm, Pesaran and Shin W-stat.

Regression analysis

Before applying fixed effect and random effect technique researcher first of all have to apply the OLS technique on software. Then random and fixed effect techniques are applied. Breusch-Pagan Lagrange multiplier (LM) is a test that is used to identify that whether OLS is better technique or Random effect model. If researcher find out that random effect technique is better over OLS on the data set with the help of Breusch-Pagan Lagrange multiplier (LM) test then researcher have to check whether random effect technique is better of fixed effect technique. This can be done easily with the help of Hausamn Test.

Table 4.6 Fixed Effect Model Estimates:

Independent variable	Fixed effect	Fixed effect	Fixed effect
	Equation (1)	Equation (2)	Equation (3)
C	8.449 [0.218] (0.00)	8.099 {1.9437} (0.00)	8.610497 {0.2256} (0.00)
LnFDI	0.454 {0.289} (0.02)	0.144247 {0.2404} (0.049)	0.196186 {0.2256} (0.07)
LnINF	-0.095 {0.087} (0.07)	-0.093638 {0.0885} (0.092)	-0.097433 {0.0895} (0.03)
LnUN	0.3132 {0.2186} (0.05)	-0.263844 {0.218251} (0.0290)	-0.264113 {0.2189} (0.06)
LnDCPS	-0.008 {0.039} (0.03)		
LnDCPSB		0.01154 {0.0354} (0.04)	
LnM2			-0.005757 {0.0341} (0.06)
Adjusted R-squared	0.546	0.403	0.512
F-statistics	22.912	15.75	17.7437
Prob.(F.statistics)	0.04	0.02	0.01
Note : coefficients of regression are without brackets, while stander error{ } and probability value()			

Table 4.7 Random Effect Model Estimates

Independent variable	Random effect		Random effect		Random effect	
	Equation (1)		Equation (2)		Equation (3)	
C	7.555 {1.4575} (0.00)		8.079 {1.9237} (0.00)		7.4578 {1.9332} (0.00)	
LnFDI	0.5672 {0.2786} (0.04)		0.124247 {0.2204} (0.049)		0.2314 {0.2233} (0.02)	
LnINF	-0.1028 {0.0854} (0.0311)		-0.073638 {0.0685} (0.092)		-0.10843 {0.0876} (0.01)	
LnUN	-0.1314 {0.1060} (0.0174)		-0.263844 {0.418251} (0.0290)		-0.0472 {0.1065} (0.047)	
LnDCPS	0.0282 {0.03733} (0.05)					
LnDCPSB			0.02154 {0.0554} (0.04)			
LnM2					0.01394 {0.0323} (0.04)	
Adjusted R-squared						
F-statistics	0.6108		0.6197		0.4066	
Prob.(F.statistics)	13.636		10.650		0.57	
Prob.(F.statistics)	0.03		0.04		0.02	
Hausman test	Chi-Sq.	prob.	Chi-Sq.	prob.	Chi-Sq.	prob.
	2.977	0.6	5.22	0.2	3.876	0.7

Note : coefficients of regression are without brackets, while stander error{} and probability value()

Hausman test is used to decide which statistical technique is better (random and fixed effect) for our panel data set used in the study . The above table shows that random effect model estimation is more better than the fixed effect model estimation because the probability values of all three equations is greater than 0.05 (more than 5%) so I have choosed random effect model.

In panel data set an approach has also been applied by past researchers to analyze data and that is Fixed Effect Model. In fixed effect model intercept term varies by firms but remain constant over time that is why we can say it time variant intercept. Coefficient of independent variables does not vary with time as well in fixed effect model. Dougherty (2007Dougherty (2007); (Lein et al., 2007) recommended a criteria for choosing a regression model in panel data.

The above table shows the relationship of GDP with all independent variables with effect to random effect estimates. In the above table three equations are used with the proxies of the FD to see the relationship with other variables. First equation shows the FDI has a positive and significant effect on GDP. If we change 1% in FDI then gross domestic product increases with 56%. Inflation has significant and negative impact on EG. If 1% change in inflation then EG decreases with 10%. The unemployment has negative and significant impact on EG. If 1% changes in unemployment then EG is decreases with the 13%. Domestic credit by private sector has positive and significant effect on EG. If there is 1% changes in the DCPS then EG increases with the 2%.

In the above table the second equation showed that FDI has positive and significant impact on EG. If there is 1% change in FDI then the EG increases with 12%. Inflation has negative and significant impact on EG so if 1% change in inflation then EG decreases with 7%. The other variable is unemployment which is significant and negative impact on economic growth. DCPSB has positive and significant impact on EG. If there is change of 1% in DCPSB then EG is an increase with 2%.

In the last equation FDI has positive and significant impact on EG because probability value is less than 0.05. If there is 1% change FDI then EG is increases with 23%. The inflation has significant and negative impact on EG because the value of probability is less than 0.05. If we change the inflation with 1% then economic growth is decreases with 10%. The unemployment has significant and impact on EG. The Money quasi has positive and significant impact on EG because the probability value is less than 0.05 and if we change 1% in M2 then EG is increases with 1%.

The domestic credit private sector is statistically significant (0.0219) and has a positive relationship with GDP. The DCPSB is statistically significant (0.0332) and has positive effect on independent variable GDP. FDI is statistically significant (0.0439) and positive relationship with GDP. The inflation is statically statistically (0.0293) and positive relationship with GDP. The m2 is statistically insignificant (0.7960) and negative effect on GDP. Similarly unemployment is statistically significant (0.0409) and positive effect on GDP. Furthermore the above table also shows that adjusted R-squared (0.310) which shows that DCPS, DCPSB, foreign direct

investment, inflation, M2 and unemployment explains the 60 percent variability in dependent variable (GDP).

4.8 Summary:

In this part researcher try to prove things empirically. Theories are not acceptable at that time when they are not authenticated by market data and this is what required in this chapter. An order is followed in this chapter of the study, first of all descriptive stats of variables is discussed in the start of the chapter in which different dimensions of descriptive stats has been discussed, then correlation matrix of the data set comes then in which correlation of variables with each other has been discussed, then regression analysis comes, in which details of the relationship of dependent and independent variables has been discussed, importance of variables with respect to significance is discussed by the researcher and then according to our model fixed effect and random effect model are discussed by researcher.

CHAPTER#5

5.1 Overview of the study:

This study investigates the impact of FDI, unemployment, inflation, and FD on EG, with particular selected regions south Asian countries. For this purpose, the present study selects GDP growth as a dependent variable while FDI, domestic credit to the private sector (DCPS), domestic credit to the private sector by banks (DCPSB), inflation (INF), unemployment (UN) and M2 are used as independent variables over the period 1982-2014. In this study used descriptive statistic, pool unit root test and estimate test, descriptive statistics and correlation used through e-view software by testing the hypothesis. Positivism paradigm used in this research strategy. In this study describes the background of the study, introduction of the study , statement problem of the study where the trouble exist, significance of the study, objectives of the study and structure of the paper. A brief description regarding the study and conceptualization of variables includes. The Review of literature is very important when a researcher is going to explore a topic because from literature review researcher can know that at what level work has been done on the topic and in what dimensions more work is needed to explore and contribute in the field of study.

5.2 Discussion

The contribution of this article that the development of financial system of the home country is vital situation for FDI to have the high-quality effect on financial growth. The relationship between EG and FD has concerned considerable attention in the previous time and there have been a great quantity of research on this area. And it is defined the association between economic growth displaying the substantial contribution of improvement in financial growth. FDI has continue to be the most important structure of things stream in the creating countries a ways exceed the level of investment, secret loans, and assistance. FDI and FD have significant and positive impact on EG in South Asian region. In compare, macro-economic research on growth and FDI frequently confirm positive proof on the idea that FDI increase growth, and leads to high quality technology. The end result of this finding that there are a lot of econometric researches in which FDI is positively linked with long-run growth. However, in different fields of development economics, there is the positive relationship between FD and FDI.

FDI results from the country point of view carefully examined. The flow of FDI by way of multinational firms there are number of implications on which different institutions impact of FDI on boom beneficiary country. FDI has a positive impact on EG, and then the home country should promote FDI subsidies related to infrastructure, and free the import duties, give the tax incentives and attract the FDI (Lyroudi, Papanastasiou et al. 2004). FDI is deemed as a good because it increases the productivity, decrease the level of unemployment, enhance the level of trade export and transfer the technology rapidly. FDI contribute in EG in those countries which are on growing stage broadly recognized. It is most important to supply the resources in the home country make major addition in the in developing country shares.

Kumarn and Pardhan (2001) examined that they have an effect on FD on EG increase is positive due to the fact if international locations focal point their financial system then economic boom will increase due to the economic fact well-functioning intermediaries have played a significant role in EG. Many studies help this end result the authentic help provided by Mckinnon (1973) regarding the relationship between FD and EG has remained an essential depend of rising economy. These features end result in a well-organized share of the resources in a greater speedy accumulation of bodily, and in quicker progress of technology development and human capital.

Jayratne and Strahan (1996) examined that when there is no restriction on banking transaction, GDP per capita then it enhance the EG.

Ahmed and Ansari (1995) investigated for Bangladesh, even though weak, help for their hypothesis. Hasan and Khan (1998) in a latest find out about for Pakistan discovered strong help for this executed by means of a distinctly organized, developed and liberated financial system. The influence of inflation and unemployment on financial growth in south Asian countries is negative due to the fact Inflation real return reduces the real return saving in financial and negative choices in capital. Huybens and Smith (1999) confirmed that creation of money decreases at the high level; reduce the property return under sure situation, guide to a discount in the scope of alternate in markets fairness. The result is that they have each badly financial system development and excessive inflation. Unemployment is central problem because when unemployment is high sources are wasted and human beings income is depressed. And this depression of earnings can make human beings poor. Unemployment is a growing trouble of each nation. Developing countries have reached to an integral stage and joblessness is growing daily. Boyd and Smith (2001) think about a different theory involving the association between inflation and monetary performance, inflation with more than a define limits on the monetary sector to expenditures. The result is poorly developed financial system and high inflation. Unemployment is central problem because when unemployment is high sources are wasted and human's profits are depressed. And this depression of income can make human beings poor. Poorer and poorest. Unemployment is a growing hassle of every country like growing nations of south Asian region. Barro (1997) examined that stable enlarge the charge of inflation have significant

consequences on long run actual growth. Smith (2003) examined that the real consequences of inflation get for markets related to the finance. This is very essential to study the have an effect on of unemployment on monetary growth. Barrow (1997) inflation gets from the penalty of INF for markets of financial conditions.

5.3 Conclusion

This study is conducted to see impact on of FDI, financial development, inflation and unemployment on EG in South Asian Countries. The variables used in the study (GDP GROWTH), money and quasi cash (M2), Domestic deposit to private sector (DCPS), domestic credit private sector by banks (DCPSB) ,foreign direct investment (FDI) of GDP, unemployment (UN), and Inflation (INF). For this cause used the information from length 1982-2014 of South Asian countries. The end result of study about that FDI increases the EG; the position of the FDI can strongly impact on home countries. The contribution of this article that the financial system development of the home country is necessary condition for FDI to have the nice impact on EG. A more developed financial system positively contributes to the manner of technological with the flow association with FDI. It can be stated that the contribution of FDI and financial development to EG is positive. When dealing with some selected regions it found that high contribution of FDI in south Asian countries. FDI has a positive impact on financial growth, and then the home country should promote FDI flows incentives for taxes, subsidies for infrastructure, exemption for the duties of import to attract FDI measures. The inflation and unemployment have negative impact on economic growth. If inflation and unemployment increases then financial growth decreases. The consequences prove that a country's essential initial foremost situation related to economic sector development is enlarged monetary growth and accelerate monetary increase is important in lowering the widespread variant in the world. The country wide argument for association the economic growth to enhance is that extreme financial system performs countless dangerous features to enhance the intermediation the efficiency through decreasing cost of monitoring. A current financial system promote outlay by identify and savings commercial opportunities related to the enterprises, mobilize savings, monitors the overall manager performance, permits the hedging and trading risk. These features result in a greater environment friendly resource allocation, in extra enhance the resources of physical and human this study gives help to the authorities in developing countries to hold the factors which contain the FDI, control the level of inflation and unemployment.

5.4 Recommendation and path for future research:

In the mild of the above summary, the tips that can be drawn from this study are the following.

- Some measures such that ameliorating judicial system, create dependable legislation and control for financial system, may want to make contributions in the direction of strengthening the monetary quarter especially in Sand couth Asian Countries can encourage quicker monetary growth.
- The investigation in this essential area is poor in South Asian Countries. Therefore, there is need to behavior extra research in this area focusing for economic growth. These nations have in researched procedure in the past. Because development of financial areas is such an essential issue for monetary growth, similarly aid lookup should commit to the actual apparatus with the aid of which it influences have an effect on economic development.
- The coverage recommendation of the word wide lending agencies, tries to decrease inflation at low level are possibly to inverse have an effect on economic development. Moreover, a straggle to gain faster monetary boom may affect the economic development. Therefore, this economic development is on knife-edge. The mission of development is to discover an increase fee that is steady with a fixed rate of inflation, as a substitute than thrash inflation first of all is to consider them to a direction of quicker economic development. Management need inflation for development, other than more fast progress fee might also speed up the inflation price and considered them downward as observed by Bruno and Easterly (1998).
- Since economic development is such an necessary factor for financial growth, in addition support/research be committed in the direction of the specific mechanism by using which it influences economic growth.
- This proposed the opportunity of a change in FDI interest from herbal aid looking for and market seeking FDI to competence seeking FDI. This also coverage for the financial and services sectors need to be centered to effectively searching for FDI. FDI ought to additionally be prompted in different area of the financial system to spread and expand overall inflows.

5.5 Limitation:

This study has following limitations:

- This study is totally quantitative study whereas a mixed study may also be conducted on the issue but due to shortage of time that was not possible in our scenario.
- Data related to some variables were not available properly that is why more time was spent to collect data from different countries.
- Government institutions lack of cooperation with other countries is another limitation which researchers to explore some unexplored areas.
- This study is conducted on south Asian countries from 1982—2014 year. Further studies can take more years data. The result of this study can be specifically applied in south Asian countries due some cardinal reason such that sample is a base of research was taken from textile sector but according to generalize rule the findings of this study may be useful in other countries.
- This research determined the influence of inflation, unemployment, foreign direct investment and financial development on economic development. The dependent variable economic growth is not only affected by the variable used in this study there could be another variable which affect the economic growth. In future, research can be conduct with new variables and with large size sample.

5.6 Implication for managers:

- As finding reveled correlation between economic development and financial zone development in south Asian countries is optimistic, managers should cog their policies to strengthening and improving the financial area. Some actions such that ameliorating the judicial system, creating consistent regulation and control for the financial system, can play important role for strengthening financial area especially in south Asian countries.
- The mangers should to make such policies that minimize unemployment, focus on financial development and avoid from more use of debt because if countries focused on

debt instead of foreign direct investment then they bear the high cost which is harmful for economy.

- The issue of unemployment and inflation require strong monetary policy for strategies. The managers that should work with the present inflation target structure, is the employ of either rule or conclusion in the manner of fiscal policy.
- Managers should maintain the level of unemployment below the natural rate and also reduce the level of inflation so that economic growth increases.
- The manger should develop techniques to attract the foreign direct investment. .
- Managers of the host countries can in no way end being practical. The FDI strategy of MNE should persistently revolve and competency of a rapid reaction to changing situation anywhere in the world economy.
- Managers should promote the financial sector because it performs an important action in economic development and it can decrease the cost of getting information, transactions, and smooth the progress of funds enlistment. By provided that these type of services, the financial division can improve allocation of resources.

5.7 Summary:

In this part of the study concludes the whole study, give recommendations those are necessary and those are other people missing and making mistakes again and again. It also involves the conclusion and discussion of the study. After discussion then researcher states the contribution of the study and limitations due to which ideal work was not possible and then at the end researcher will point out the gaps which can be filled by future researcher.

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