

**“Determinants of financial development with the evidence of  
emerging and developing economies”**



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

In Partial fulfillment of the  
Requirement for the Degree of

**Master of Business Administration (Finance)**

By

**Name: Misbah Mughal**

**Roll No: MBEW-F14-009**

**Session: 2014-16**

**The Superior Colleges (School of Management Sciences), Lahore,  
Pakistan**

August, 2017

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## **Dedication**

I dedicate this thesis to my Mother who encouraged me to fly towards my dreams; she gave me life, taught me to live, fought for me, and always there for me; and to my elder brother “*ADIL AHMED* ” who make possible for me to achieve my goals, who made me what I am today, who is the role model for all the brothers in the world.

## **Acknowledgement**

All the praises and thanks due to ALLAH ALMIGHTY, the LORD of the Alamin (mankind, jinn, and all that exists). The Entirely MERIFUL, the Especially MERCIFUL. SOVEREIGN of the day of Recompense.

## **Abstract**

The main objective and purpose of this research paper is to determine and examine the impact of independent variables (inflation, export, GDP and foreign remittances) on selected dependent variable (financial development) with the evidences of emerging and developing Asian countries (Pakistan, India, Bangladesh, China and Indonesia). In this research the data has been collected from 1995 to 2015 covering 20 years' time frame. The data was collected from textile sector of Pakistan and quantitative techniques were used in this research paper. A panel unit root examination consumes remained conducted to inspect the long run and short run impact by selected four variables on financial development. Furthermore this is study also engaged panel ARDL model to create short run relationship for the each economy included in the research. The results of this study have indicated that there is significant and positive relationship of four variables with financial development. On the basis of this study results, it is also concluded that the government of our country should develop policy regarding financial development and also control inflation rate so that people can invest more and more in our economy.

**Key Words:** Financial development, Inflation, Export, Gross Domestic Product (GDP), Foreign Remittances, Asian countries

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## **Chapter: 01 - Introduction & Background:**

Financial development and all monetary improvement is the base of assembling exercises of any developing countries particularly Pakistan, Bangladesh, Indonesia and India are confronting such a large number of issues attempting to move from the poor of developing countries and diminishing the rate of neediness however much as could reasonably be expected. There exists a great ratio of unemployment, inflation, market crises, load-shedding, political instability, thus many negative perspectives. These all issues are truly an awesome obstacle in the method for economic advancement. I trust that this exploration will be demonstrated as gainful for the individuals who are looking for an approach to dispose of this time traverse. In particular, business analysts consider that enhancing monetary pointer's execution impacts decidedly on the financial conditions.

This assumed has been internationally perceived and assumes a fundamental part to make positive changes in financial condition of any country. The motivation behind this review is to expound that how financial development may influence by the most major monetary pointers like securities exchanges, outside direct speculation, individual settlements and assessment incomes. As a base to monetary development, it accelerates the execution of financial strategy's usage, dynamic part of intermediation and a promoter of installment administrations. To the monetary development, a solid money related structure has an imperative part. There is a greater part of studies which portrays that there is a solid connection between money related markers advancement and monetary development. The motivation behind this review is to expand the way of this connection hypothetically, and drive out that if legitimate enhancements would be made, then how an economy can accomplish astounding advantages.

In past studies, there are a lot of theories which describes the association between financial development and gross domestic products of any country. Most of the theories shows the relation between exchange rate with inflation, some says that foreign remittances and financial development is positively related to each other, some defines that the entrepreneurial activities have its effects on economic growth and some theories says that a strong tax collection system perform very important and noticeable effect on economic growth of any country. This study provides a complete theoretical preview about the relation of these indicators with financial development and shows the nature of this relation. It pursues to distinguish the effects of the financial sector in the Pakistan's

economy and whether the sector has remained able to attain its main objective of intermediation as a result of the incapability of the financial sector to assist the real sector despite the vast profits and also the long term investment that can boost the economy.

The idea, that financial development effects economic growth of country is not new. There are a plenty of studies which indications the linkage of major economic indicators and economic growth and positively describes that how they can effects. Usually, measurement of economic growth of country practices its national income. Financial intermediations show their effects on economic growth when we study them on long run basis. The growth of an economy is supposed of not only as an increase in productive ability but also as an enhancement in the quality of life to the people of that economy. As indicated by the (Levine R., Financial advancement and monetary development: perspectives and plan, 1997) the level of money related improvement is a decent predicator of future rates of monetary development, capital collection and mechanical change.

It is viewed as that without an agent set of budgetary establishments and monetary improvements, profitable arrangements may stay undiscovered. Unproductive financial institutions drive the effect of taxing productive investment and therefore dropping the possibility for increasing the stock of equipment controlled to contest collectively. Incompetence may noticeably decrease growth from the points that might have been possible given suitable plans and market erection. The financial division assemblies funds from detached households and assign them resourcefully to liquefy entrepreneurs. It is highly recognized that a disciplined financial sector allows households to assortment risk and sustains runny savings.

In developing countries, financial sector and developing markets is a part of the private sector development policy. These plans are to inspire economic growth and decrease poverty. Basically, the financial sector is denoted as a set of organizations, gadgets and marketplaces including the lawful and governing agenda that badge dealings to be made over the postponement of credits. Essentially, financial sector development apprehensions overcoming budgets experienced in the financial scheme. That procedure of minimizing costs for getting evidence, performing transactions and applying contracts shows in the appearance of financial agreements, mediators and marketplaces. Diverse kinds of

information and implementation costs in combination with diverse governing and tax schemes must drive different methods of contracts, mediators and markets crossways states in dissimilar eras.

When financial instruments, markets and intermediaries work together to minimize the costs of information, implementation and transactions, financial sector development takes place. Behind economic growth, there will be a solid and well-operating financial sector which performs as an influential engine because it produces local investments, which leads to fruitful funds in local business. Furthermore, the financial sector delivers the essentials for growing income and job formation. Across the world, the cumulative importance of financial marketplaces has strengthened the universal idea that finance is an essential component of economic growth as such; the importance has persisted on economic growth and stock market development.

An effective financial system is essential to build a sustained and an open exciting economic system, according to (Olusegun, Ganiyu, and Oluseyi, 2013). The countries incline to grow faster if they have well-developed financial institution, particularly the size of the stocks traded and its liquidity which have a strong positively influence on economic growth. Pakistan has utilized quite restrictive investment and trade policy rule since its independence in 1947. In the early 1990s Pakistan has opened up and prepared foreign direct investment rules environments supportive to foreign investors. The economy of Pakistan have been seen periods of high monetary growth, but saving rate remained lower 15% of GDP and investment rate staying roughly 17 percent of GDP. There is huge gap among saving and investment. (khan, 2011).

The administration of Indonesia ongoing was liberalizing its capital account rule in 1967, when it introduced the foreign direct investment in 1967. The administration afterward joined a free floating foreign exchange structure in 1970 which was followed by additional liberalization of the fiscal region in 1980s. Indonesia has ever since been mostly apparent as a striking goal for foreign investment and this reasonably long experience to investment flows (Khaliq and Noy, 2007 ). At the time of independence in 1971, Bangladesh innate only a small stock of foreign direct investment, mainly of it by transactional corporations and order toward utilize a domestic market protected by the then establishing import replacement policy.

Over the last two decades the country has deregulated and liberalized its foreign investment system. This has been done by a World Bank and IMF backed Structural Adjustment Policy package. (Rayha, 2009). Foreign direct investment policy was designed which aims to mobilize foreign resources and acquire latest technology. With the change in political and economic regimes of India, policy of foreign direct investment also changed. In 1965 industrial policy of Multinational companies allowed to venture through technical collaboration in India. In vital countenance of Indian economy the administration of India with the assist of IMF and World Bank introduced to the stabilization macroeconomic and SAD (structural adjustment program). (Malhotra, 2014).

The development of Foreign Direct Investment in China has been increase since the starting of the economic reforms in 1978. After the United States, China is the second largest receiver of foreign capital in the globe. The development of foreign direct investment in China has been carry out by a fast economic growth and an increasing frankness to the rest of the world. Foreign direct investment performed the most important source of foreign capital in China. (Dees, 1998). In the changing modes of international transactions foreign direct investment fascinated great interest in developing and developed countries in home and foreign mobilization of production factors. Foreign direct investment regime enforced the foreign countries to go behind deregulations policies and belief on marketplace in foreign economics.

Foreign direct investment considered main source of external money, to meet economic growth and difference. Distinctive observational reviews demonstrates a huge piece of interior remote direct interest in money related advancement of the making countries, through its duty in human resources, capital course of action, raise of reliable and supervisory capacities, and trade of innovation, propelling fares and imports and the structure effect of displaying (Crespo and Fontoura, 2007).

### **1.1 Problem Statement:**

Pakistan is a developing country. We do not have a sufficient demanding understanding of the appearance, development, and economic consequences of different financial structures. Financial structure is the combination of financial contracts, marketplaces, and organizations which vary from country to country and changes as country grow. As some Asian countries are also in developing stage. It was normal that the GDP of these nations

will be high as contrast with different nations for next 10 years. As pronounced above, securities exchanges pull in the consideration of all speculators. They do not have satisfactory philosophies of why different monetary structures appear, or why monetary structures vary. Instability of national policies and difference in national resources produces different economic structure. After assumption about these nations, financial specialists from worldwide might want to put for the following ten years in those nations, thusly, it's at the end of your tether need to determine the relationship between financial development and these other factors. This study, reviews that how the time-differing money related improvement factors identified with Export, GDP, Inflation remote settlements are identified with time-fluctuating shakiness in the (Asians) nations stock value list unsteadiness.

## **1.2 Research Objectives:**

The main purpose of this homework is to theoretically investigate the impact of four major indicators (GDP, Inflation, Export and Foreign Remittances) on financial development of Pakistan. The detailed objectives of this study are enlisted as below:

The main and most important object of this study is:

- To examine long run and short run relationship between projected variables

There are also some other minor objet of this study which are mentioned as below:

- To determine the association that exists between Gross Domestic Product (GDP) and Financial Development
- To identified the specific linkage between foreign remittances to financial development of country.
- To forecast about the relationship between GDP with Financial development.
- To investigate which polices and procedure are suitable to implement for financial development of our country.

## **1.3 Research Questions:**

The main determination for this research is to check the influence of selected variables (inflation, gross domestic product, export and remittances) on financial development. The other main object of this research to answer the following questions.

**Q-1** what is the impact of Gross Domestic Product on Financial development?

**Q-2** what is the impact of Export on Financial Developments?

**Q-3** what is the impact of Foreign Remittances on Financial Development?

**Q-4** what is the impact of Inflation Rate on Financial Development?

#### **1.4 Significance of study**

This study shall contribute in no of ways to the future research and to the researchers as well. The present study will be suitable for those people who are searching for the knowledge of ongoing financial development research in Pakistan. It will be helpful for the researchers, which will be a part of their literature review. This study will be helpful to industrial analyzers because they will be able to see the trend from last 20 years regarding GDP, Export, Inflation and Remittances of Pakistan. As far as concern with utilization of data regarding Asian countries, this study will also help out a lot. This study will be helpful to the Federal Board of Revenue, who can review their data of GDP, Inflation, Remittances and Export.

#### **1.5 Scope of the study:**

This study scope is to determine the association between the financial development and other four indicators (GDP, Inflation, Export and Remittances) in the prospects of Pakistan. This also examines the potential for growing national production while improving major sectors like finance, foreign investments, encouraging home remittances, and improvement of government tax collection department's performance. In this study we came to know that financial development is the growth in real gross domestic production. It means a growth to the value of goods and services created in an economy. This research will be useful to understand the relationship of these indicators with financial development.

#### **1.6 Conceptualization of variables:**

##### **1.6.1 Gross Domestic Product (GDP)**

Gross domestic product remains for total national output. It's the official measure of the aggregate yield of merchandise and ventures in the economy. The meaning of GDP is as per the following: it is the aggregate market estimation of every last great and administrations delivered amid a given day and age inside a country's local outskirts.

“Domestic” (in ‘total national output’) implies that we’re just tallying things that are created inside our local outskirts, regardless of whether they are delivered by Americans or by nonnatives. It doesn’t make a difference. Nothing that is delivered outside of our local outskirts gets numbered in the GDP (Keynes, 2013)

### **1.6.2 Inflation:**

Inflation is the rate at which the general level of costs for products and enterprises is rising and, thusly, the buying force of money is falling. National banks endeavor to point of confinement inflation, and maintain a strategic distance from flattening, so as to keep the economy running easily. Because of the inflation, the value level will persistently rise and the estimation of cash lessening, additionally money inflow of advantages will likewise decrease with the exception of those securities which have been expansion recorded. Opportunists who have resources are presented to change in expansion, since their installment 26 to a great extent relies on upon the expansion rate amid the holding time frame. Thus, expansion and stock cost must a bad connection or we can state increase is antagonistically influenced to the stock cost. Strategy creators in different countries need to keep up little expansion, through the filled business, adjusting the pay appropriation, and so on to build up the financial circumstance of a country.

### **1.6.3 Export:**

A export is a component of overall trade whereby items made in one country are transported to another country for future arrangement or trade. The offer of such items adds to the making nation’s gross yield. In the occasion that used for trade, fares are exchanged for various things or organizations in various countries. Fares are a standout amongst the most prepared sorts of money related trade and occur on a broad scale between nations that have fewer restrictions on trade, for instance, charges or appointments. A large portion of the greatest associations working in bleeding edge economies decide a liberal section of their yearly wages from fares to various countries. The ability to fare items helps an economy to create, by offering more broad stock and undertakings. One of the center elements of strategy and outside approach inside governments is to encourage financial exchange ways that advantage both sides included. Exports are a critical part of a nation’s economy

#### **1.6.4 Foreign Remittances:**

An exchange of cash from a transient laborer to their families or different people in their nations of origin. In numerous nations, remittances constitutes a huge part of the GDP (up to a third sometimes). The United States is the main wellspring of remote remittances, trailed by Russia and Saudi Arabia. The top beneficiaries are India, China and the Philippines. So much cash is being dispatched, the G8 and the World Bank are endeavoring to screen and control remittances costs. As indicated by social researchers, since it's so boundless, remittances has suggestions that stretch out past individual fund. For instance, since dispatching includes monetary organizations, individuals who send and get remittances are probably going to have ledgers, which advances financial improvement.

#### **1.7 Summary:**

In the above mentioned Chapter of this study, I gave a foundation of studies, which investigate the connection between 4 variables (Inflations, GDP, Export and Foreign Remittances) with financial development. I talked about in part 1 issue explanation that what is a noteworthy target of the review why I have expected to examine these 4 Inflations, GDP, Export and Foreign Remittances factors with development of developing counties and development driving economies for the day and time series of 1995 to 2015. Further, in this section I concentrated on the 29 essentialness of the review, the extent of the review and a short detail of chose financial development factors. Part two containing, writing surveys of past reviews, while in section three informational collection, factors, the philosophy of the present review is talked about, and in section 4 consequences of the present review are examined. At last what are the impediment, future research degree and study is concluded.

## **2 Chapter: – Empirical Findings:**

### **2.1 Introduction:**

The 2<sup>nd</sup> chapter of this research is based on the findings and discussions of previous researcher, who have conducted some studies on defined variables. This literature review has shown that many researcher has examine the relation between independent variables (inflation, GDP, export and remittances) with dependent variables (financial development). However, keeping all the factors and previous study in our mind this study also focus on to test the relationship between the above mentioned variables. As reverence to the previous study we have seen that some researcher say that there is positive impact of inflation on financial development with reasonable significant level but on the other side some researcher study shown that there is negative impact of inflation in financial development. So, in this study we are also going to test their relationship.

### **2.2 Theoretical Background**

Mossa and cardak (2003) examined the Determinants of foreign remittances in Extreme Bounds Analysis. Researchers applied eight determining variables Gross Domestic Product (GDP), commercial energy, research and development, tertiary and country risk to find out foreign direct investments inflows through cross sectional analysis. Secondary data collected from 140 countries over the period of 1998-2000. Results show that, exports, Gross Domestic Product (GDP) per capita are telephone lines per 1000 of populations are attract more foreign direct investment. In ordinary conditions the results show that nations that are more flourishing in attracting foreign direct investment are industrial countries with a greater level of openness. Researcher suggested that, the lack to maintain for the power of other factors can be defined in different number of factors.

Oke et al., (2011) major works on impact of foreign remittances on financial development. The dependent variable is financial development and independent variables are GDP, Export, Inflation and remittances. This review looks at the effect of settlement on money related division improvement in South Asia utilizing information from 1989 to 2011. A large portion of the scientists direct unique reviews in various measurements. These may incorporate the effect of outside settlements on monetary development, instruction, wellbeing and neediness. Devoted et al. (2012) concentrate that remote settlements play a

very important role in developing countries like Pakistan. Many workers who are working in out of country play an important role in elimination of poverty.

Adam et al. (2008) study that foreign remittances reduce the ratio of poverty. Edwards and Ureta (2003) study that inflows remittance effect on education custody. Frank (2005) trust that other countries have a good impact on health. Improvement in economic factors due to foreign remittances. The external payments play a significant role towards the economic factors. The foreign remittances play an important role in growth of economic. Keeping in mind the end goal to analyze how monetary development is affected by the settlements inside the neoclassical system, Fayissa et al., (2010) utilizing information for the period 1980-2004 of 37 nations of Africa originate that the settlements apply beneficial outcome on monetary development in nations whose budgetary frameworks are less created. The review appears that basic development sources. Information and capacity of spending on wellbeing, lodging, sustenance, and other family unit things can build their profitability and can assume key part in financial development.

African nations can have monetary steadiness by putting resources into customary sources like human, foreign direct investment also utilizing the settlements in most ideal route by guaranteeing powerful exchanges and cutting depressed the price (Fayissa et al., 2010). Comparative discoveries have been displayed by Javid et al. (2012) and Iqbal, Sattar (2010) in others. The main reason for comprehension the link between foreign remittances and development, first needs to consider how improvement of the nearby money related division influences the capacity of a nation to exploit from these inflows. It is watched that a few nations particularly the less created nations are utilizing these settlements for venture purposes. In Mexico around 20% of the aggregate capital put resources into the organizations is transmitted by the specialists' dwelling what's more, working in U.S the Woodruff, Zenteno (2001).

Same is the situation in Egypt where vagrants subsequent to coming back to own home utilized the assets received overseas to set up their own particular ventures. McCormick ,Wahba( 2003). Oke et al. (2011) researched the relationship among foreign remittances and the money related part improvement by utilizing information on Nigeria from year 1977 to 2009. The review connected common minimum square (OLS) and summed up strategy for minutes (GMM) estimation systems. The proportion of secluded praise and

cash supply to GDP were the two pointers which were utilized to quantify the monetary improvement. It was found that foreign remittances have beneficial outcome on monetary advancement except for the proportion of private credit to GDP. In Nigeria's settlements increment liquidity more when contrasted with loanable subsidizes as settlements are for the most part utilized for utilization purposes instead of beneficial determinations in the cheap. As, these arrivals are wellspring of outside trade which is exceptionally indispensable to the inside and in addition the outside segments of the economy, in this way, they ought to be bolstered by planning and actualizing a reasonable approach.

In a comparable nation particular review, Chowdhury (2011) analyzed how monetary segment improvement is affected by settlement inflows in Bangladesh. In the wake of applying cointegration investigation and vector blunder rectification display on information from (1971, 2008) it was inferred that the advancement of money related arrangement of Bangladesh is decidedly affected the expansion in settlements inflows. The estimation comes about likewise demonstrate that the settlement inflows are not reliant on budgetary division's improvement of the economy. It appears that the beneficiary nations have by and large stayed not able to oversee and utilize the settlements proficiently in light of the fact that the effect of settlements differs from nation to nation as they are the private trades and the market forces alone can't make their usage productive that prompts to financial portion progression and finally cause advancement in the economy. So far as that is concerned, some appropriate techniques are similarly ought to have been taken by the organization so that the settlements could be used more capably (Nicholas, 2002).

What could be inferred by capable use here is that if the settlements are channelized honestly then the stores of the banks may grow which then can be used to conquer the issues of liquidity and in this way the level of premiums in the country would augment in the end developing cash related headway in the region. Studies to examine the settlement budgetary progression associations are excessively driven on the commonplace introduce using different board sets. Gupta et al. (2009) inspected the effect of expanding inflow of settlements to sub-Saharan Africa. In spite of the fact that this area gets a little measure of settlements as contrasted and other creating economies and a significant part of the assets are in type of help yet it is found that the money related area improvement is affected emphatically by increment in settlement inflows. This positive effect additionally helps in decrease of destitution in the locale.

Same outcomes were found even in the wake of controlling the turnaround causality among settlements, budgetary advancement and the destitution. It has been recommended by the concentrate that if appropriately used the settlements can helps as get to point for unbanked people and family units. The more prominent increment in settlement entries empowered Fayissa et al. (2012) to watch the long-term relationship among these inflows and monetary area advancement considering 44 nations counting 25 from Africa and 19 from America for the period 1985 to 2007. This relationship was examined by considering swapping scale, household per capita salary of getting nation, the extent of transient stock and the remote per capita salary in the host nation. They presumed that monetary improvement, conversion scale security, and the extent of transient stock on both of the areas are influenced decidedly by settlements.

The review likewise perceives the impact of determinants of settlements which relies on upon territorial contrasts. Aggarwal et al. (2011) gathered an information of around 109 creating nations for the time of 1975 to 2007 to analyze the connection between the combined stores' level and settlement inflows furthermore between credits issued by the nearby managing an account segment and settlement inflows. The Fixed Effects Model and GMM dynamic framework proposed that money related area advancement is emphatically affected by settlement inflows furthermore they are interrelated. Giuliano and Ruiz-Arranz (2009) likewise broke down the effect of settlements on budgetary advancement by utilizing information of 100 creating nations. He found that settlements have much unmistakable impact in less created money related frameworks as contrasted and very much oversaw frameworks what's more, help in conquering the liquidity imperatives and give an option speculation source.

This suggests within the sight of legitimate channels for settlement moves can increment in settlement inflows eventually bringing on budgetary area advancement. Increment in bank stores builds the proportion of credit to GDP in these nations. Aggarwal et. Al (2006) connected settled impacts display on information of 8 nations from 1870 to 1913 and it was proposed that there is more than proportional effect on the money related administrations entrance. Other universal inflows have not as much as corresponding impact. The relationship between settlement inflows and budgetary division advancement on both large scale and in addition miniaturized scale level was initially inspected by Brown et al. (2011).

Although dissecting the large scale smooth, information of 138 nation's year (1970 till 2005) is utilized to evaluate settled impacts and probity show. At the miniaturized dataset scale level consist 3,899 and 3995 family units from Azerbaijan what's more, Kyrgyzstan, individually. They study that settlements and monetary improvement are conversely connected in Azerbaijan while an immediate relationship was found in Kyrgyzstan however its impact was less conspicuous. In spite of the fact that the significance of settlements for social prosperity in host nations is well record, authentic writing does not give a convincing end to the open deliberation of settlement money related improvement linkages.

It is likewise obvious that commitment of specialists' settlements toward monetary advancement relies on upon the locales and the effective utilize and channelizing of inflows. Past exact for the most part depended on the managing an account segment markers to be the delegate of entirety monetary framework in an economy. At long last, the best of our insight, South Asian district has not been examined to goad light on this essential financial marvel. To fill this crevice, we have utilized eight distinctive money related improvement markers to concentrate the relationship between settlements inflows and money related improvement in South Asia.

According to Mehmood (1999) explained that by taking account of the tightness with which MFA has bound Pakistan, this gain might be around US\$ 1-1.3 billion. As we have seen that most of the Textile has exported from Asia to north Africa, America and Europe which is increased by 14 to 20 percent next to the ending of given quotas (WTO, 2006).According to an estimate by Khan & Mehmood (1996) Pakistan will have an additional sixty two percent of market access and textile and clothing has almost sixty seven percent separately through the eradication in 2005 by MFA. On the other hand more than 500 million US Dollar would be gained for the Pakistan with the removal of multi-fiber arrangement.

Cevls and Camurand (2007), they have developed a framework to measure the monetary determinants of foreign direct investment inflows through utilized a data of 17 emergent countries and evaluated economies from 1989-2006. They explore seven variables respectively, foreign remittances, wage, GDP, trade rates, interest rate, domestic investment and inflation rates. results show that foreign remittances is positively related

with growth rates, interest, trade rates and the earlier period foreign remittances however contrary correlated with inflation rates. Therefore inflows of foreign remittances had given high power to the host countries' economies. The utilization of long haul obligation by both expansive and little firms, it was proposed that obligation assertion depended on genuine term and fantastic swelling may raise the financing cost hazard face by the firm. That demonstrates the negative relationship between the obligation arrangement finally evaluators expands the validity of the general learning by the firm present records ought to decrease the part of here and now obligation in moderating data issue and lead demonstrate the route to the positive connection to the obligation development. (Demirguc-Kunt and Maksimovic, 2001).

The Textile Industry is commanded by Punjab. 3% of United States imports concerning attire and other type of materials are secured by Pakistan. As far as concern with the research we have check the in 1999 the Textile exports was 5.2 billion dollar which is much less as compare to the analysis of the year 2007 in which the textile export was approximately 10.5 billion dollar. Material fares figured out how to increment at an extremely well raised development of 16% in 2006. In the period July 2007 to June 2008, material fares were US\$10.62 billion. Material fares share in complete fare was dropped by sixty seven percent to fifty five percent in 2008, as other textile sectors exports have grown day by day. The main reason for decrease of material fare of Pakistan is the Govt destructive strategies. Sui Northern Gas Pipelines Ltd. (SNGPL) informed the material factories to diminish the supply of gas for five months.

Quader (2009) examined economic variables of foreign direct investment inflows in Bangladesh. Researcher used economic variables, GDP, wage, trade openness, and net exports and tax rate to analysis the inflows of foreign remittances in Bangladesh. Secondary data used from 1991-2006. Result shows the robust positive effect of GDP, wage, trade openness, and net exports and tax rate on foreign remittances flows in Bangladesh. researcher suggest that Bangladesh needs to increase its infrastructure facilities, enhance the quality of its services, further liberalize its global and local investment policy and enhance its political and macrocosmic stability to attract more foreign remittances inflows.

The presence of a proficient and well-working money related area is critical for the successful operation of all economies. The getting and loaning exercises of this part guarantee enterprises in the genuine area of economy approach subsidize they required for ventures and produce yield, fares and employments. The procedure of budgetary deregulation and privatization has the primary objectives and goals with respect to the addressing and accomplishing the need of genuine part of economy so making the money related bit all the more viably and productively. On the other hand we have analyze that the Privatization shall increase more production day by day, improve coverage of services and quality, market base prices should be promoted, to capture better management and capital, reduce the lose regarding financially, windrow national debts, support domestic markets capital, ownership broaden and opportunities should be reduces for corruptions.

In other words it is to agree the consumers and customers can enjoy the benefits of privatizations which is GOP aims at fostering competitions. (Shabbier A KAZMI, 2001). Blonigen and Piger (2011), they have analyzed the determinants of foreign remittances in different countries. The variables used in this research are labor endowments, Gross domestic products (GDP), regional trade agreements, trade openness, foreign country infrastructure, institutions, business and cultural distance. Researcher used Bayesian techniques that identify to choose from a large set of candidates and those variables related to the determinants of foreign direct investment activity.

Three types of data were collected for their study, firstly cross country foreign direct investment activity is bilateral stocks reported by members of the OECD. Secondly data was collected from Braconier research their data provides information on outward sales involving 56 different domestic countries and 85 different host countries over four different years from the late 1980 - 1998. Result shows that some variables found significant. Research suggested significant uncertainty in the real model of bilateral foreign direct investment patterns. Research suggests that when the domestic currency appreciates, growth rate of balance of trade will decrease. When the domestic currency decreases, growth rate of trade balance also increases.

In current period, it is analyzed that the Material industry is the real supporter of the fares of our nation however in the universal; we have seen that market share was declining. On the other hand the crucial period for the textile industry was the year 2008-09 since the

main problems that industry has faced at time is energy crisis and globalization. The impact of globalization is seeming on together request and source sides of the employment comparison. Nevertheless, we have seen the demand of global supply has less as compare to its capacity in current years, the increase of cost has compressed the feasibility thus imposing the industry to make distress sales. Resultantly all competing countries are making distress transaction of sales and maintained their market shares. The Pakistani textile industry has also affected with it (Economic Survey of Pakistan, 2008-09). Ekanayake and Ledgerwood (2010) dissected the impacts of outside settlements on development of creating nations .Research utilized information of 85 creating nations covering Africa, Asia, Caribbean and Latin America from 1980 to 2007.they investigated speculation that, reason for remote settlements can advance financial development in creating nations.

Variables used in research GDP growth, inflation, foreign remittances growth, labor growth, capital growth and economic freedom. They used the panel data series for foreign remittances and accounting for regional differences in Africa, Caribbean, Latin America and Asia. Results show the positive and significant effects of foreign remittances on monetary growth of Africa, Caribbean Asia, and Latin America. (Ahmed, 2004) clarify that there was a time of history when zakat applications had serious setback. The ration of zakat to GDP in Saudi Arabia, Yemen and Pakistan is 0.3-0.4 % age.

As numerous part of the Muslim world fell to military and cultural foundation during the nineteenth century, many laws and social practices were changed. In recently years, government of several countries has presented the collections of zakat. Saudi Arabia begins again with the accountability for the collection and distribution of zakat at the state level in 1951. Likewise, Libya instituted zakat in 1975 and Pakistan in 1981 and Sudan in 1983. Zakat Collections by the government organizations in various countries, yet, have been insignificant and are exposed to have little effort on elimination of poverty. Research recommended significant uncertainty in the real model of bilateral foreign direct investment patterns.

The utilization of long haul obligation by both expansive and little firms, it was recommended that obligation assention depended on genuine term and stupendous swelling may raise the loan fee chance face by the firm. That demonstrates the negative

relationship between the obligation strategy finally examiners builds the validity of the general learning by the firm present records ought to reduce the part of here and now obligation in alleviating data issue and lead demonstrate the route to the positive connection to the obligation development. (Demirguc-Kunt and Maksimovic, 1999). Investigated impact of foreign remittances, trade openness, home demand and exchange rate on export of Pakistan from 1980 to 2009 using the vector error correction model. Results show that here is a long run equilibrium relation in variables (Adhikary, 2012). Foreign direct investment was initiated to be a powerful factor in defining the change in exports in short and long run. Research suggested that Pakistan should reform their different economical polices to increase its trade.

Khan and Nawaz (2010), they analyzed the determinants of foreign remittances in Pakistan and used data from 1971 to 2005. Their analysis identify some determinants of foreign remittances in Pakistan, growth rate, Gross Domestic Product (GDP), exports, human population, price index and tariff. They used regression analysis for determinants of foreign remittances in Pakistan. Results show the positive and significant effect of growth rate, Gross Domestic Product (GDP), exports, human population, price index and tariff on foreign remittances in Pakistan. Hassan K. and Basher A., Jeddah, (2001) enlightened the concept of “The determinants of Islamic Banking”. They worked out the five variables which included commercial banks, Islamic banks, capital ratios, GDP and financing loan services. They figured out the result after an empirical calculation which showed that stronger the GDP of the country higher will be the profits of banks. Islamic Bank’s loan is one-sided towards here and now exchange financing. All things considered, their advances are okay and just contribute unassumingly to the bank benefits.

In the study of (Keith Wade, Anja May, 2013) Investors always put special attention on market’s performance and the changes in growth because it has noteworthy effect on return on equity. If we want to study GDP growth completely in respect with GDP growth and financial market’s relation, then we needs to study it in environment of broader economic cycle as GDP growth really needs to study to check the changes in monetary policies and the fluctuation of inflation rate. It is recognized that it monetary policy in not much severe, then in weak economic growth situation, equity markets can perform very well. So, this is all about monetary policies which make markets strong or weak. There is a noteworthy relationship between return on equity and prosperous GDP growth, although,

this relationship is not long term, but still there is association. Financial markets have impact on economic activities this discussion is not new but the main view about this relationship changed time to time as a few decades ago, the main function of capital was considered as development of financing of trade and this study was measured as the relationship of financial markets and real activities.

It is estimated that remittances are not affected by the economic conditions of any country. It remain constant in the situation where economy is facing declines and there is chances instead, that the migrants may get income security in other countries while their home country is getting through declines. Remittances are beneficial for both the worker itself and the country as it improves the quality of life of the worker as well as provides foreign exchange reserves to the country. And besides the both conditions, if these remittances are invested, they prove as output growth and if they are consumes, it prove as quality of life escalator. The only lose which occurs by migrants is that the skilled labor lack in the country (Ratha, 2005).

The funds which are sent by migrants to their homeland contribute an essential role in economic growth of the developing countries and considered as powerful tool to enhance economic growth more than the foreign debts, FDI and Grants we get from development banks because this factor is stable in its nature. People used to send remittances not only by banks but also from other channels. An estimate describes that the remittances send through banking channel is beneficial for the country and other means are not related with economic growth (Rahman, 2015). As far as concern with our neighbor country, (Malhotra, 2014) examined the factual impacts of foreign direct investment on Indian market, mainly after two decades of monetary reforms and analyzed the challenges to rank itself favorably in the global competition for foreign direct investment. Secondary data was used from 1992 - 2012 to find out the effect of foreign remittances in Indian economy. Study used economic variables GDP and growth rate. Results show positive and encouraging impact on Indian economy.

It is also important for the government to make policies which may increase FD ratio because it not only attracts foreign investors but also proved as a tool to enhance exports of the country easily. It is highly recognized that the Foreign Direct Investment motivates the ratio of exports for the multitude country as well as it is considered that is shifts

technology from one country to another. It also increases the chances of learning new patterns of operations, organizing, and controlling over the production as well as overall industry.

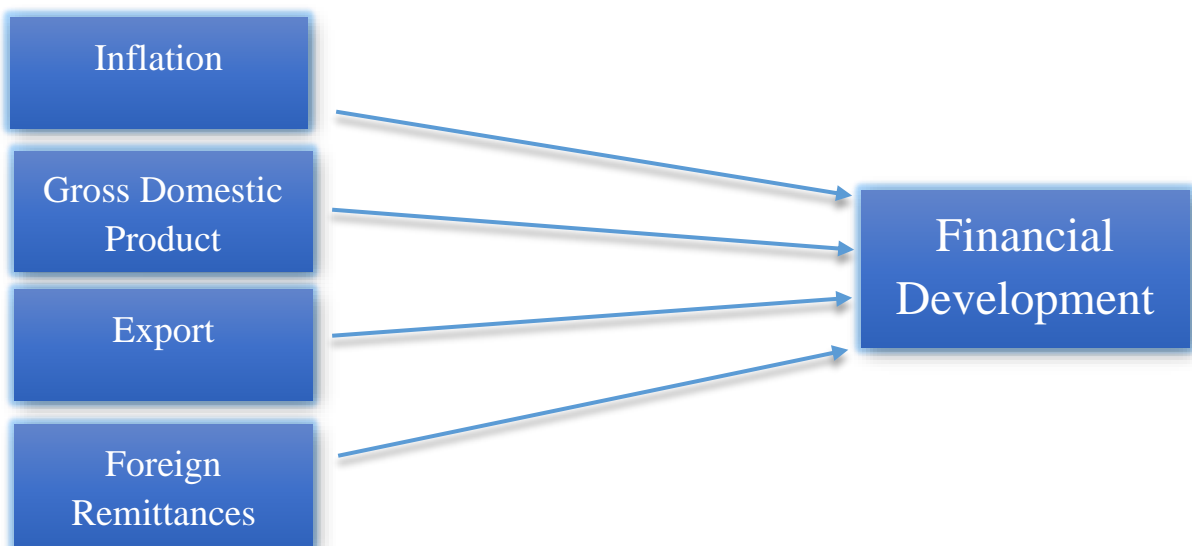
FD effects on labor activities and management patterns of country. FD can have a considerable effect when certain favorable conditions are met. (Wahiba, 2014). It improves human resource skills and knowledge and allocation technological information. This is possible to be proved as effective if we consider numerous fundamentals which are really important to keep focused. Those fundamentals consist of the environment of trade where transactions are easy to make and cost is less; there is an inauguration of the investments by human resources as well as capital, there must exist a reliable and commonly acceptable market where goods and services have been produced and exchanged in between the residents of country and the companies exist and owned by the local owners; the competition exists between the firms and each and every firm is looking for new technology of production and paying attention over research and development in order to produce innovative and creative goods and services (Falki, 2009).

### 3 Chapter: - Research Methodology

In this chapter, I am going to discuss the method which I have adopted for my research and will describes about the data type, sources and detailed methodology. It identifies the research paradigm. Research approach and philosophical assumptions which will use in my research and all other description about how this research will be conducted and concluded as this is very important to describe step by step process of research to make it much reasonable, easier and understandable for my readers. It additional aspects at the investigation practice and the applied method accepted to achieve objectives of the work. We are doing research on Independent variable is Gross domestic products (GDP), Export, foreign remittances and Inflation with dependent variable is financial development. This chapter will helps in overcome the barriers of study and provides material of each action of the research. In this report we have surveyed the various date which is based on time series models and gauging strategies that could be utilized as a viable instrument to catch the creating information that is established by added records.

#### 3.1 Conceptual Research Framework:

The type of study is descriptive as well as theoretical review with detail analysis of literature suggesting and describing the characteristics of the variable of interest that the determinants the impact of Foreign Remittances on financial development. These fundamentals are Export, Inflation and Gross Domestic Products, thus the analysis is a causal time series study. By utilizing the above mentioned variables the conceptual research frame work can be drawn as below.



## **3.2 Hypothesis**

Hypothesis is denoted as the testable statements which is a guess declaration and generates a theory after calculations and obtaining results. It needs so many tests to be applied to generate a theory from a hypothesis. So the actual meaning of hypothesis is not theory but a guess to generate a theory.

### **3.2.1 Inflation:**

- Ho: Inflation does not have impact on Financial Development

### **3.2.2 Gross Domestic Products:**

- Ho: Gross Domestic Product does not have impact on Financial Development

### **3.2.3 Foreign Remittances:**

- Ho: Foreign Remittances does not have impact on Financial Development

### **3.2.4 Export:**

- Ho: Export does not have impact on Financial Development

## **3.3 Variable and Data Sources:**

In my research there total 4 variables are being exploited as part of current study (Inflation, Gross Domestic Product, Export and Financial Development). This study are based on panel data which is collected from different sources for the time frame from 1995 up to 2015. In this research, the data is collected from WDI (World Development Indicator). The key tenacity of this learning is to test the impression of Financial Development as dependent variable on independent variables Inflation, Export and Gross Domestic Products. The basic functional form of my research model are mentioned as below:

**Table 1.1 variables description and sources**

<b>Variable</b>	<b>Description</b>	<b>Units</b>	<b>Sources</b>
<b>Inflation</b>	Continual increases of prices for goods and services	Consumer prices (annual %)	WDI
<b>Export</b>	Export of Goods and Services	(annual % growth)	WDI
<b>FD</b>	Financial Development (reduce poverty by economic growth of country)	-----	WDI
<b>GDP</b>	Gross Domestic Products (measurement of country's health of economy)	GDP growth (annual %)	WDI
<b>FR</b>	A payment which is transferred from an individual to their homeland for his/her family	(Current US\$)	WDI

### 3.4 Data Collection:

Data collection has very important role in any research. This specific review is additionally bolstered with the assistance of auxiliary information that was gathered from different books, diary articles and sites that are referred to likewise in the writing, presentation and different parts of this review. Our main focus on time series data from the period 1995 up to 2015. I am quick to realize that if there is any review is been done all through the world considering these expectations that the creator has, must be assessed thought by scientists. For this reason, different books have been perused by writer and a broad survey of writing is been done that bolster the contentions and theory made by I needed to distinguish the effect of introduction on representative turnover aim. From that point onward, to affirm the consequences of those looks into and to gage to check the effect of Gross residential items (GDP), Export, Foreign Remittances and Inflation with ward variable is monetary improvement.

### 3.5 Data:

The data used in this research is elected from WDI's website as it is considered as easiest, reliable and accurate source of getting secondary data which means that this data has been previously obtained by some other sources. Annual, time series data has been collected for the variables like GDP, Inflation, Export, FR and FDI from the period of 1995 up to 2015.

This data is a type of quantitative data which means that this has been collected by some other person or source rather than the user of data. The reason behind why this research consists of secondary type of data is that it saves time and easily available at websites keeps organizational and country's data. These websites consists of quality of data through databases. This is very tough for an individual researcher to collect such data on their own. Secondary data is used to analyze a matter which had happened in past so this makes uneasy for new researcher to conduct survey to collect data having facts and figures of past incidents.

### **3.6 Data Type:**

In this research the selected data is secondary as it is collected from WDI (World Development Indicator) in terms of annual percentage of GDP, which is a vast source of obtaining secondary data. This data type is "Time Series". The data collected first time is denoted as primary data, but second time collected data is called secondary data. The data collected from WDI (World Development Indicator) is secondary source this is why our data type is secondary.

### **3.7 Data Sources:**

This data has been chosen from WDI, World Development Indicators. WDI provides comprehensive data which encompasses of reliable data which is collected from official sources. Data collected from this site is more defined, chronological and truthful as it is updated, revision, error free and based on exact dealings of country. There are two major sources of collecting information and numerical data about national accounts and BOP, the official sources and the present reports collected by the banks of specific country.

### **3.8 Targeted Population and Sampling**

The ground of inferential measurements empowers you to make instructed surmises about the numerical qualities of extensive gatherings. The rationale of inspecting gives you a way of small part of your selected members of your group on which test the conclusions whereas population refers to the members of group who has common phenomena. Study finding may different from sector to sector and due to sampling it may varies. So that in any research a well know sector made by its population and sampling size

### **3.8.1 Population:**

Total 5 Asian countries is selected as the population for this research, these countries are Pakistan, India, China, Indonesia and Bangladesh and the reason behind this is said to be that these countries are well-known and in a list of developing countries, even a part of economy growth including GDP and exports is filled by these; moreover, the reason behind selecting the above mentioned countries is also to extend the research of Rahman et al, where Rahman et al, (2011) conducted a study on different developing countries, which covered a data of 10 years (1998 – 2007) period. The purpose of study was to analyze the relation between Independent variable foreign remittances (Gross domestic products (GDP), Export and Inflation) with dependent variable financial development.

### **3.8.2 Sampling**

In this exploration and study we had functional a population and there is no sampling size because we have time series information for the season of 1995 to 2015. Advance, I have incorporated all the economies which are currently in rising and developing stage so we have no compelling reason to apply sampling method. In this way the informational collection for the developing and development driving economies covering perceptions of 20 yearly, 240 monthly and 7200 total days. Consequently, the present review satisfies the states of ideal specimen measure, and having over 85% perception. Therefore, the specimen size is satisfactory and huge to accomplish the imagined ponder comes about. Show concentrate considered specimen period for the season of 1995 to 2015 covering 20 years; for the chose macroeconomic factors and stock value file instability for the developing and development driving economies. Extensive example estimate expands the propensity of to build the force of factual test and reduction the likelihood of mistake sort II, consequently dispense with the shot of tolerating incorrectly invalid speculation.

### **3.9 Research limitations:**

In every study and research paper there are some limitation and boundaries for a researcher and writer from where they cannot exceed and cross. So keeping all the factors in our mind we have identify some limitation for this study as well. In this study the research is lemmatized to only specific counties like Pakistan, India, China, Indonesia and Bangladesh from where all the data has been extracted and the research data was limited to

last two decade data from year 1995 to year 2015 approximated last 20 years. Further that this research has limited resources because of limited availability of desired data.

### **3.10 Research Ethical Consideration:**

In context of research study and research paper there are some ethical boundaries for a researcher and writer from where they cannot cross. This research has some ethical consideration, hence there were amendment in the data is made and no biasness is shown in the loss or profit from the given time period. Literature of this study has not been modified due to any personal interest and authors suggestions and recommendations has not been changed. We have not put any personal opinion in the above mentioned literature and the literature is properly quoted with references.

## 4 Chapter: - Results & Analysis

In this study, I have contain 5 variables for example financial development, Export, Gross Domestic Product, Inflation and Foreign Remittances. However, the result of this study has generated by using panel unit root test, long run relationship (F-statistic), Long-Run Coefficients of ARDL, Error Correction Representation Serial Correlation LM Test, Godfrey Test and Cumulative Sum of Recursive Residuals Test. In the below, detail result of all test have been interpreted with their values and their impact on dependent variable.

**Table 4.1.1**

### 4.1.1 Time series panel Unit Root Test

At level			At first difference			Conclusion
Variables	T-Values	Probability	Variables	T-Values	Probability	
<b>FD</b>	56.67	98.00	<b>FD</b>	-604.40	0.00	I(1)
<b>EXP</b>	-74.09	82.46	<b>EXP</b>	-529.40	0.01	I(1)
<b>GDP</b>	323.06	100.00	<b>GDP</b>	-342.18	1.59	I(1)
<b>INF</b>	252.38	99.99	<b>INF</b>	-544.97	0.01	I(1)
<b>REM</b>	-337.77	5.63	<b>REM</b>	-152.79	80.34	I(0)

Before going to apply any other test, first I have to test unit root test on all our time series date which I have collected through my research and to check its result. The below mentioned table 1.1 has shown the result of ADF and PP at level and at first difference. The most import thing we need to check the sationary of all variables because it was observed that non-sationary variables may generate fake result. As far as concern with the both tests result, the above data are showing that all 5 variables are tested on the basis of at level and at first differences. We can see that In (FD), In (EXP), In (GDP) and In (INF) are stationary at I(1) and just a single factors In (REM) at I(0).The result are significant level according to Augmeneted Dickey Fuller test and at one, Pakistan Economic and Social Review percent significance level according to Phillips-Perron test. So now we may additionally continue to apply cointegration test to distinguish that either our 5 factors are cointegrated or not.

**Table 4.1.2**

Order of Leg	F-statistics
1	8.16

**4.1.1 F-statistic for testing the existence of long run relationship**

As far as concern with the result of long run relationship, these are complex to the selected long-length with reference of model (Bahmani-Oskooee and Bohal, 2000). In above mentioned table No 1.2 has shown the calculated F-statistic for the select optimal lag-length according to the model. As reference by Pesaran at al. (2001), with slack of request 1 the lower and upper bound qualities at 10 percent hugeness level are 2.45 and 3.52 separately. The above mentioned table has calculated value of f-statistics (8.16) is less than the upper bound value of F-statistic which make us to understands and guide us to reject null hypothesis of no long run relationship. Hence, we conclude that after applying this test nearby is no extended run association between variables.

**Table 4.1.3**

**4.1.2 Long-Run Coefficients of ARDL (1, 1, 0, 0, and 1) Model Dependent Variable (FD)**

Variables	Coefficient	Std.Error	Prob.
Constant	-63.646	12.090	0.000
EXP	0.264	0.020	0.000
GDP	0.014	0.089	0.030
INF	1.021	0.539	6.640
REM	1.208	0.150	0.000

The above mentioned table 1.3 has displayed the data which is calculated after applying Long-Run Coefficients of ARDL (1, 1, 0, 0, and 1) Model Dependent Variable (FD) test. It also disclose that inflations is one of the most significant variable which has most effect on financial development in Pakistan. As per the outcome and result, the impact of Inflation is critical at one percent level of significant. We can see that there is positive relationship between inflation and financial development and if there is 1.021 unit increase in inflation rate then in result there is 0539 positive increase in financial development. The

coefficient (1.012) of in (INF) shows that one percent increase in inflation leads to the positive increase in financial development value added in long-run. So that it indicate, there is direct relationship between inflation and financial development which is significant. To the extent worry with remote settlements, it additionally has another critical consider budgetary advancement with the rate of 5 percent esteem included Pakistan which is negative not surprisingly. The coefficient (1.208) in (REM) is show that if there is 1.208 percent increases in one unit of remittances then eventually there is 0.150 percent increase in one unit of financial development. Whereas if we talked abo the other two variables these coefficient (0.014) of In (GDP) and (0.264) of In (EXP) which have less impact on financial development as compare to other.

**Table 4.1.4**

**4.1.4 Error Correction Representation of the Selected ARDL (1, 1, 0, 0, 1) Model**  
**Dependent Variable (FD)**

<u>Regressor</u>	<u>Coefficient</u>	<u>Std.Error</u>	<u>Prob.</u>
<b>*EXP</b>	0.192	0.017	0.000
<b>*GDP</b>	0.010	0.023	0.010
<b>*INF</b>	0.742	0.391	6.640
<b>*REM</b>	0.210	0.059	0.00
<b>ECM(-1)</b>	0.7080	0.0392	0.000

R<sup>2</sup>=0.46, F-statistics (prob) =5.39 (0.0002), D.W 1.597

According to the above mentioned table 1.4 which hold the result of mistake alteration illustration of the selected ARDL model with dependent variable is financial development. In this table short run elasticity's has shown with \* this sign for the coefficient of the variables. The result of this test has shown that another time inflation is one of the most significant variable and has positive relationship with financial development. The result of the above mentioned test has shown that if there is increase 0.742 percent in unit of inflation then there is increase of 0.391 percent in unit of financial development and factor with the 2<sup>nd</sup>largest coefficient and ration for financial development value added. Then again, both factors Inflation and Remittances for the most important impact on financial development at greatest rate of critical level. The 0.742 value of the coefficient of \* In (INF) disclose that three percent increase in inflation takes about 7.4 percent addition values in financial development in the short run. Respectively with other factors as In

(GDP) the coefficient is 0.010, In (EXP) the coefficient is 0.192. However, the existence of long run relationship among the variables are positive with the sign of the error correction term reinforce is the highly significant.

**Table 4.1.5**

**4.1.5 Breusch-Godfrey Serial Correlation LM Test:**

F-statistics	0.1067	Prob. F(2,34)	0.8990
Obs*R-squared	0.2850	Prob. Chi-Square(2)	0.8671

Table 1.5 is indicating consequences of serial relationship; serial connection is a circumstance when mistake term relies on upon its past day and age blunder term. Serial relationship is most vital symptomatic test as a result of serial connection exist when we disregard any pertinent variable, serial connection likewise give data about Incorrect Functional Form (Gujarati: Basic Econometrics, Fourth Edition). Null speculation for serial connection is no serial relationship be tween’s residuals. In the meantime the P-esteem (0.8671) of Obs\*R-squared is more prominent the 5%, henceforth on the base of watched p-estimation of Obs\*R-squared we will acknowledge invalid speculation.

**Table 4.1.6**

**4.1.6 Heteroskedasticity: Breusch-Pagan Godfrey Test:**

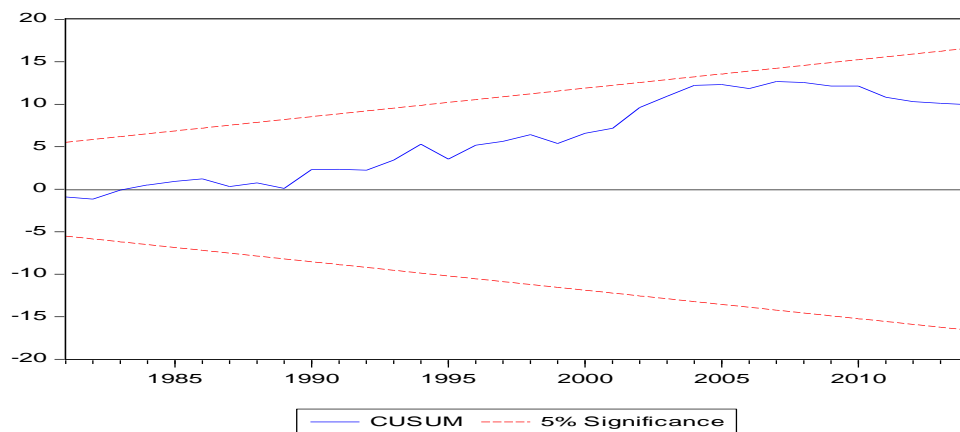
F-statistics	1.0078	Prob. F(8,34)	0.8644
Obs*R-squared	8.2423	Prob. Chi-Square(8)	0.410

Table 1.6 showing yield of Heteroskedasticity, a circumstance when fluctuation of lingering doesn't stay consistent, it is called Heteroskedasticity, which is not alluring, while if change of residuals is steady it is called homoscedasticity, which is attractive. To check Heteroskedasticity is most essential in time arrangement information as a result of, by excellence of Heteroskedasticity presence standard blunder not any more exact and T-Statistics might be higher or lower. Invalid speculation is homoscedasticity or change of residuals is consistent. In the interim the P-esteem (0.6752) of Obs\*R-squared is more

prominent the 5%, consequently on the base of watched p-estimation of Obs\*R-squared we will acknowledge invalid speculation.

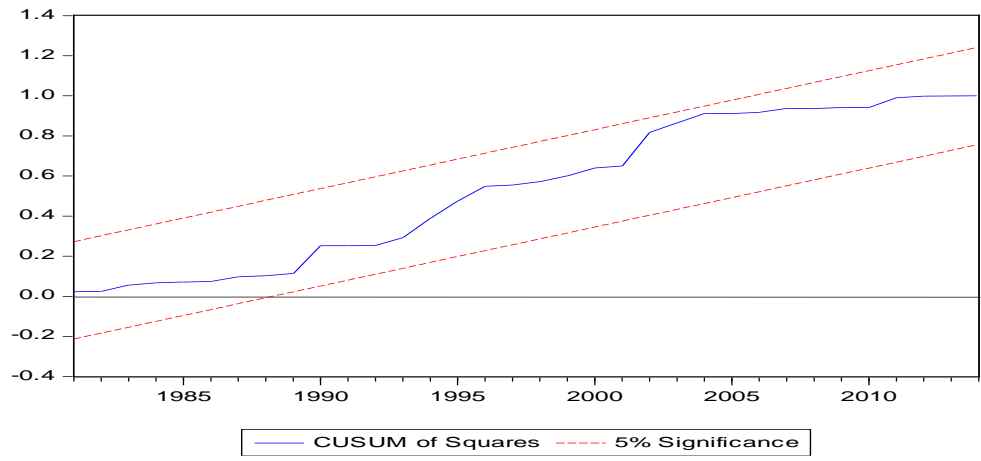
**Table 4.1.7**

**4.1.3 Cusum (Cumulative Sum of Recursive Residuals) Test.**



Darker et al. (1975) presented Cusum (combined total) and Cusum of squares tests. Cusum test depends on a conspiracy of the entirety of recursive leftover .Following diagrams are indicating two straight red lines, while there is one blue line which is inside these two lines, red lines are speaking to 5% basic limits, where invalid speculation of having stable parameters' for each of anticipated factors is rejected if blue line cross redlines .On the other hand, if plot stay inside two straight line invalid theory is not rejected. Combined entirety test appears if coefficients of relapse are evolving methodically, while total of square test is useful to appearing if the coefficients of relapse evolving abruptly (Bhatti, Al-Shanfari et al. 2006).Hence on the base of taking after diagrams portrayal we can infer that there is no structure break or straightforward we will reason that parameters' are steady since blue line is existing inside red straight lines, henceforth we will acknowledge invalid speculation of stable parameters.

CUSUMSQ (cumulative sum of squares) test



## 5 Chapter: - Conclusion & Recommendations

### 5.1 Conclusion:

At the end of this study, I would like to conclude my whole study in a single page, the basic aim of this study and research to examine the relationship of financial development with 4 different variables like inflation, gross domestic product, export and foreign remittances keeping in the boundaries of 5 different Asian countries namely Pakistan, India, China, Indonesia and Bangladesh for over the period of 1995-2015. The data is examined on the time series from starting point to ending point as mentioned before. The selection of the population is based on the fact that these countries are one of the developing countries and part of their economic growth includes GDP and exports. Four financial development indicators namely, inflation, GDP, export and foreign remittances were used. This paper investigates the relationship and impact of these development driving economies and the connection it has between the four variables i.e. inflation, GDP, Export and Foreign Remittances. It also reviews the time-varying financial development variables to the time-varying instability in the Asian countries and their stock price index instability.

In the time series panel unit root test all the four variables are stationary except remittance. Then, in the long run relationship (F-statistic) test it shows that around is no extended run affiliation between variables. In the Long-Run Coefficients of ARDL (1, 1, 0, 0, and 1) Model Dependent Variable (FD) test. It discloses that inflation is one of the most significant variables which have the most effect on financial development in context of Pakistan. As per the outcome, the impact of Inflation is critical at one percent level of significant indicating that there is direct relationship between inflation and financial development. Similarly if there is one percent increases in remittances it increase the one percent of financial development whereas the other two variables have less impact on the financial development.

In Error Correction Representation Test shows again that inflation is the most significant variable and a factor with second largest coefficient and ration for the financial development value added. And both factors like inflation and remittances for the most part impact the money related advancement at greatest rate of critical level. Cumulative Sum of Recursive Residuals Test concludes that here is no construction disruption or humble,

concluding that limitations' are steady since blue line is existing inside red straight lines in the graph, henceforth tolerating the invalid speculation of stable parameters. We state that as far as concern with the financial sector of Pakistan in long runs and short runs inflation has reduced the efficiency level.

Financial area can enhance its execution through some development and new polices. Economy development likewise advances money related improvement. Social spending enhances the execution of financial related area over the long period. Government of our country ought to begin proper strides to control inflation in the nation to get the more benefit from financial related part's advancement.

## **5.2 Recommendations:**

After detailed conclusion this research has recommended that it can be experimental that inflation and foreign remittances are the basic determinants for the calculation of financial development in these five developing countries, even though after our analysis we can say that gross domestic product and export are also has significant relationship with financial development but have minor impact. Therefore, it is stated that government of our country should control the inflation rate so that our potential investors can invest their money in our stock market so that ours financial development shall increase in future.

- 1) However, it is hard to anticipate our stock exchange behavior when, financial development factors rise, all the more basically, greater unconventionality in money related advancement factors, so it is so difficult to predict stock market position.
- 2) The 2<sup>nd</sup> suggestion is when Investors from rising and development driving economies take a gander at the Inflation, exchange rate and GDP rate before organizing portfolios and enhancement systems; and
- 3) It is likewise vital that policies maker should consider these money related advancement factors amid the strategy making process.
- 4) Finally financial specialists ought not to hurry to offer, on account of long haul speculation compensated.
- 5) Lastly, it is recommended that financial development with high level of indications being reliable with inflation rates between 11-16% which guaranteed money related improvement could just advance development under low or direct selling rates.

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