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**IMPACT OF EXCHANGE RATE AND INFLATION ON FOREIGN INDIRECT
INVESTMENT**



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ABSTRACT

Key Interest of this studied is to discover the impact of Foreign indirect investment on the exchange rate. Focus was to check that how change exchange rate affects the foreign investors to invest in Stock market of Pakistan. Find out the vulnerability of foreign indirect investment also known as foreign portfolio investment Data of past five years (2012-2016) is analyzed in the study. Correlation, regression and t-test are applied to understand the relation between the independent variable Exchange rate and Dependent variadle Foreign indirect investment. Results showed positive relation on both variables over the past five years.

FPI is dependent on various variables but Exchange rate is a very essential factor. Nowadays conversion scale is exceptionally unstable because of open overabundance of the organizations and speculators in both the household and global money related market. This instability in the trade is extremely impressive for outside speculators.

CHAPTER: 1

Introduction

Exchange Rate is the rate at which one currency might be changed over into another. The conversion scale is utilized when just changing over one currency to another, (for example, for the motivations behind go to another nation), or for participating in theory or exchanging the remote trade showcase. There are a wide variety of factors which impact the swapping scale, for example, loan fees, swelling, and the condition of legislative issues and the economy in every nation. Likewise called rate of trade or outside conversion scale or currency exchange rate. For Example; while working with European organizations, the conversion scale dependably impacted official conclusions of the American monetary organization.

Foreign in Direct investment is the advantages of speculation introduction in foreign business sectors that are accomplished in a roundabout way by putting resources into multinational organizations. Financial specialists can take an interest in the potential development of different remote markets while minimizing their immediate presentation to Economic and political dangers.

Understanding the indirect effects of exchange rate is the normal individual encounters the estimation of money as genuinely stable from every day. The cost of some espresso each morning is dollar 1.50, the settled interest auto installment and home loan are the same consistently, and for a salaried person, even the pay checks are indistinguishable. The way that the estimation of cash is always fluctuating in connection to different currency just appears to matter when arranging a foreign trip or discovering something stunning on (EBAY) and being compelled to pay for it.

The vast majority knows about the immediate effects of foreign trade rates, yet they are only the tip of the ice berg. The indirect effect of trade rates and their fluctuations stretches out much more extensive and more profound to influence a large number of the most vital parts of our live like to what extent it takes to land a position in any organization , where we can bear to live, and when we can retire. Exchange rates affect the economy both in the close term and over delayed timeframes.

Effect of exchange rates on how you buy goods is that in the time of globalization and products from different nations are as typical and there significantly more ordinary, than those delivered locally. Exchange rates significantly affect the costs you pay for imported items. A weaker local currency implies that the value you pay for outside products will rise essentially.

As a conclusion, a stronger residential currency may lower the costs of outside merchandise to some degree.

How about we show the effect of a weaker household currency on item costs with an example. Expect that the Canadian dollar decreases by 10 percent against the U.S. dollar over a year, from a rate of 90 U.S. pennies per C\$ (US\$1 = C\$ 1.1110) to 81 U.S. pennies (US\$1 = C\$1.2350). What might be the value change in Canadian grocery stores for a pound of California almonds that are accessible in the U.S. for US\$7? All else being equivalent (expecting no different expenses and just considering Exchange rates), the cost of California almonds in Canada would increment from about C\$7.78 (i.e., approx. US\$7 x 1.1110) to C\$8.65 (US\$7 x 1.2350) per pound.

The adjustment in the cost of imported items relies on upon how the monetary standards of the sending out countries (i.e., those from where these items have been originated) have fared against the local cash. In April 2015, the U.S. dollar ruled against all monetary standards, which would have brought about American shoppers paying lower costs for German autos or Japanese gadgets. But since various currencies had changing exhibitions against the U.S. dollar, cross-currency connections would be somewhat more complex.

For example, the euro had dropped 21.4 percent against the U.S. \$ in the 12-month time frame to April 24, 2015, though the Canadian \$ had declined just 9.5 percent against the U.S. dollar over this period. Therefore, the Canadian dollar had acknowledged around 15 percent against the euro over the previous year (from C\$1 = EUR 0.6575 to C\$1 = 0.7560), bringing about Canadians paying to some degree bring down costs for European items, for example, wine and cheddar.

Impact of exchange rate on interest rates and inflations on savings and loans is that a feeble local currency can push up the Inflation rate in a country that is a major shipper, due to higher costs for foreign items. This may prompt the national bank to raise financing costs to counter inflation, and in addition to support currency and keep it from

diving pointedly. Then again, a solid currency discourages inflation and applies a delay to the economy that is equivalent to tight money related policies. Accordingly, a country's national bank may move to keep loan costs low or diminish them in order to block the household cash from getting excessively solid.

The conversion standard consequently indirectly affects the financing cost you pay on your home loan or auto credit, or the premium you get on the cash in your reserve funds or currency market account.

Impact of exchange rate on your investment portfolio is the Conversion scale uncertainties can substantially affect your venture portfolio, regardless of the possibility that you just hold residential speculations. For instance, the solid dollar by and large hoses worldwide interest for items as they are valued in dollars. This lower request can influence income and valuations for household ware makers, though part of the negative effect would be moderated by the weaker nearby currency. A solid currency can likewise affect deals and benefits earned abroad, in 2015, various U.S. multinationals credited a hit to the top-line and primary concern from the stronger dollar. Obviously, the impact of trade rates on portfolio returns is outstanding. Putting resources into securities that are designated in an acknowledging currency can help add up to returns, while putting resources into securities named in a devaluing money can trim aggregate returns.

For example, various European stock files achieved record highs in the initial four months of 2015; however American financial specialists who had put resources into them would have seen their profits decreased considerably by the diving euro.

Impact of exchange rate on real estate is a poor or underestimated household money can resemble having open-finished Black Friday deal and what is discounted is each and every great, administration, and resource in the nation. The trap is, just purchasers who can pay in the more grounded outside money get the deal cost. This pulls in outside travelers, which can be useful for the economy. Be that as it may, it likewise pulls in outside purchasers hoping to gather up cheap resources and overpaying local purchasers for them. Remote purchasers have pushed up lodging costs in countries with weak cash. Foresee you are house chasing and all of a sudden you are offering against individuals who are getting, say, a programmed 30 percent markdown on the asking cost. Regardless of the possibility that you are not house chasing, high lodging costs and low supply

influence lease also. In 2015, neighborhood interest for lodging was additionally exceptionally powerful in various countries, as their national banks held loan fees at record lows in an offer to refresh their economies. This additionally had the impact of pushing their monetary forms to multiyear lows, raising apprehensions of a worldwide currency war.

Why exchange rate fluctuates much the same as an icy berg, the real effect of exchange rates vacillations lie generally underneath the surface. The indirect impact of currency changes overshadows the immediate impact on account of the immense impact it applies on the economy in both the close term and long term. The indirect impact of trade rates reaches out to the costs you pay at the market, the financing costs on your advances and funds, the profits on your venture portfolio, your employment prospects, and perhaps even on lodging costs in your general area.

Portfolio investment in Pakistan is the Speculation of the reliability of cash or cash-flow to buy money related Instruments and different resources keeping in mind the end goal to get gainful returns in the frame Pakistan Economic and Social Review of enthusiasm and the positive gathering of the estimation of the instruments.

The greater part of the reviews underlined on the positive parts of outside capital on monetary development. Remote capital enhances the procedure of financial development by filling the crevice amongst funds and venture. Outside capital streams are partitioned into two sorts: remote guide and outside private speculation. Outside private speculation is the most critical wellspring of remote capital. Outside private speculation is further separated into Foreign Portfolio Investment and Foreign Direct Investment.

Portfolio speculation is a group of money related venture instruments. These monies related instruments are anything but difficult to exchange and are less everlasting. These instruments are not unavoidably a representation of long-run intrigue. It incorporates stocks, securities, obligation securities, profits and common assets of distinctive organizations from abroad and residential. This kind of venture gives the financial specialists profit installments, conceivable voting rights and responsibility for part of the organization. This kind of venture speaks to normally short-term enthusiasm as it is viewed as more unstable and unverifiable.

These budgetary resources, Portfolio Investment, are profoundly fluid in nature furthermore, simple to change over into money in whenever. Asian Economic Crisis of 1997 occurred because of high unpredictability of Foreign Portfolio Investment. Huge measure of advantages has changed over into money at the season of budgetary emergency. Speculators can deal their budgetary instruments from portfolios whenever, relies on upon speculator's decision. In this theory NPI has been taken as needy variable. NPI is achieved by subtracting charge from credit in portfolio venture streams.

FPI has changed the world, it was time that speculations were bound to the boundaries of residential nations however with the idea of globalization and expanded introduction of boniness world FPI has change the world. Nations are putting resources into outside areas and uncommonly in creating nations due to shoddy work and low capital ventures, Restrictions are less in the creating nations, Laws are not extremely strict and openness to the business is void. Exchange is distinction is additionally a major component. For Strong economy nations it is there is high positivity to put resources into creating nations and gain enormous benefits because of swapping scale contrast.

In creating nations FPI is exceptionally alluring. For the last three decades FPI has changed the state of money related world. Ventures have coasted all through the world. This huge measure of cash flow has change the photo of changeability in return rates, Exchange rates have turned out to be unpredictable, rates respond to each and every movement of FPI around the world. For creating nations dilemma is the lack of capital which limits them to stay in a confined circle. For those nations FPI assumes an essential part to break that circle and push ahead. Through FPI these creating nations can enhance their framework, innovation, Industry, profitability, organizations. These progressions altogether offer ascent to temperate position of the nation, enhances neediness, business, wage, swelling, and sully and demand change, sends out, over all exchange.

With these conservative changes there comes a substantial effect on swapping scale as instability as well. These foreign assets can be utilized for development by these creating nations. For the created nations it is gainful to put resources into creating nations in light of the fact that the minor efficiency in creating nations because of deficiency of capital speculations and those financial specialists can procure high overall revenues.

Portfolio venture will prompt to a capital structure of firms in Pakistan by enhancing the administrative motivations and association's esteem. At the point when portfolio speculation will rise, it will lead change in Pakistan economy as it will enhance chances of work, business area execution, per capita wage, GDP development, swapping scale adjustment, and adjust of installment change and so on. Portfolio venture streams will likewise increment remote holds in Pakistan with a positive effect on adjustment of conversion standard. This review on elements influencing the portfolio interest in Pakistan is critical particularly in light of a high market hazard and geopolitical circumstance of Pakistan. As Foreign Portfolio Investment (FPI) is a primary source that can draw in outside speculation towards Pakistan in the circumstance of high market risk. Foreign portfolio venture has ended up being more unpredictable and delicate to the adjustments in its determinants, in the Asian Financial Crisis. This review talks about components that influence portfolio interest in Pakistan with CHAUDHRY et al.: Components Affecting Portfolio Investment in Pakistan 143 proofs from time arrangement investigation. Contemplate tries to discover the relationship between Net Portfolio Investment, advertise capitalization, M2, Foreign Direct Investment and exchange level of openness. This review helps with discovering the strategies to pull in Portfolio Investment streams into Pakistan. Like Pakistan, this study would likewise hold any importance with approach producers in many creating economies.

FPI has changed the world, it was time that theories were bound to the boundaries of private countries however with the possibility of globalization and extended presentation of business world FPI has change the world. Countries are placing assets into outside zones and exceptionally in making countries because of trashy work and low capital endeavors, Restrictions are less in the making countries, Laws are not amazingly strict and openness to the business is void. Exchange are refinement is also a noteworthy segment. For Strong economy countries it is there is high inspiration to place assets into making countries and increase gigantic advantages as a result of swapping scale differentiate.

In making countries FPI is outstandingly charming. For the last three decades FPI has changed the condition of cash related world. Wanders have drifted all through the world. This immense measure of income has change the photograph of variability consequently

rates, Exchange rates have ended up being flighty, and rates react to every single development of FPI around the globe. For making countries dilemma is the absence of capital which limits them to remain in a bound circle. For those countries FPI accept a fundamental part to break that circle and push ahead. Through FPI these making countries can upgrade their structure, advancement, Industry, productivity, associations. These movements altogether offer rising to mild position of the country, upgrades poverty, business, wage, swelling, sully and demand change, conveys, overall trade.

With these moderate changes there comes a significant impact on swapping scale as precariousness as well. These Foreign resources can be used for improvement by these making countries. For the made countries it is profitable to place assets into making countries in light of the way that the minor effectiveness in making countries due to lack of capital theories and that money related authorities can acquire high general incomes.

(EATZAZ &ALI, 2011) chipped away at expansion uncommon and loan cost in 1999. In their paper they contemplate determinants on swelling rate and swapping scale next to each other throughout the years in Pakistan. Their study showed that alteration of swelling and conversion scale was not very dynamic. Change in any of these variable was not indicating fast change on the other in the time of 1990s. Distinctive approaches were being set aside a few minutes and those strategies were demonstrating moderate effect on the variables. There was need of powerful framework to execute the strategies quickly to control the postponed effect of the administration arrangements on the monitory powers. Since 1982 subsequent to skimming the cash, rupee has taken a considerable measure many overlays throughout the years and has indicated critical fluctuation. Rupee has been exceptionally instable over the years there was great development times too however rupee has likewise observed some terrible circumstances. There was a cheapening impact in almost 1999 yet it was because of some practical problems yet for a typical native tireless depreciation of rupee is more concern capable. In Pakistan we surmise that fundamental component of swelling is debasement of cash (rupee). While the fundamental issue is not the degrading of cash in Pakistan it is a greater amount of the expansion in the costs which causes the cash to diminish it acquiring power. So the majority of different reviews have demonstrated that fundamental reason of swelling is increment in the costs of imports which could be the reason of expansion level in the

other nation too from where we are bringing in or the distinction of monetary conditions in the other nation. Probability of degrading f cash could be additionally the expanding costs on the planet. So these issues can bring about our cash appear to devaluate. Every one of these variables was likewise talked about. (Qasim, in 1996).

Aim of the Study

World has turned into a worldwide town. Every one of the organizations of the nations are presently incorporated with each other. The word has turned into an exchange machine. For this machine every one of the nations are the parts of its business. Presently organizations are being worked all inclusive. Single business has its numerous units all around the world. One nation is great in innovation so it will supply its products all through the world. Distinctive nations have diverse specialties or we can call that forte its competiveness. A few nations are great in innovation so it's there focused edge however might be the do not have enough human money to improve their profitability and still on the off chance that they even get that man power from a few nations than might be there is requirement for regular resource for the creation as a crude material, so now that nation will require collaborate with some third nation for that asset. There could be plausibility that different assets are required so it has potential for various nations to connect with one another and share their capabilities to take care of business.

As there is colossal association of every one of these nations and there is have to work together. This procedure can bring about enormous cost and deferrals of in meeting supply and demand works in time. FPI is the source to make these procedures more straightforward. Through FDI financial specialists can go to the host nation where the accessibility of Maximums asset is conceivable in minimum cost.

Pakistan is a creating nation and our property is likewise extremely rich in assets. In Pakistan we have modest work and good conditions to pull in the remote financial specialists. In spite of the fact that we are confronting numerous issues regarding security and lawfulness circumstances still Pakistan is appealing for the outside investors in view of less cost they will bear through contributing here and then they can gain extensive peripheral benefits.

We find in Pakistan that the greater part of the enormous dress brands have their manufacturing plants in Pakistan and they don't contribute specifically they outsource Pakistani enterprises for creation, all due to slightest costs.

Nowadays numerous nourishment brands, Clothing brands, Production units, IT organizations and numerous other outside businesses have put resources into Pakistan. They have their workplaces and plants and outlets. This pattern has expanded the financial development of Pakistan.

So FPI has clearly contributed in the monetary development of Pakistan. In Pakistan there are various components which are not for FPI inflows like political shakiness, moderate development in economy, peace circumstance, and random move of money esteem, precarious economy, and obligation position of Pakistan. In this review my attention is on the conversion standard and swelling rate, that how these two free factors impact FPI.

Expansion rate affects Exchange rate also so with the uncertainty of currency esteem these is effect on swapping scale and that conversion standard is specifically identified with FPI stream.

Academic Motivation

A considerable measure of studies and investigations are done on this point. In this study concentrated distinctive reviews with respect to this theme and some other related reviews too in this study it is found a ton on the openness of economy, flexibility of economy, swapping scale. Every one of these variables was discovered firmly identified with FPI. A portion of the reviews appeared there connection as exceptionally noteworthy and some demonstrated unimportance. In each review there was very much characterized clarification how these variables are affecting each other. There effects unmistakably demonstrated that these elements are imperative for the general development of the nation. In these reviews swelling was a variable which was being depicted as a decided of FPI significantly affect FPI but connection was dependably as debasement or increment in the estimation of money and then it's in effect on exchange. We see that at whatever point there is expansion or flattening there comes an impact on the swapping scale of the nation. In the writing connection of expansion on conversion scale and then the effect of that change on exchange rate turns into a determinant of FPI

stream. Through the writing I was not ready to comprehend this consolidated impact of inflation and conversion scale. So I chose to construct my review with respect to consolidated impact of expansion and conversion scale on FPI. That how these two variables consolidate together to and decide the stream of FPI.

Delimitation

In this review I have produced the joined results of Inflation and swapping scale on FPI in Pakistan. Pakistan is an alluring nation for the venture purpose. Numerous nations have their interests in Pakistan because of this reason also there are a few dangers. These insecurities are created by the outside strengths which have their individual interests to keep Pakistan in moderate development. There thought processes are not the era of benefits or to keep Pakistan in the rundown of immature nation however there fundamental intentions are to keep themselves from the disasters which can be brought on with the improvements in Pakistan.

In Pakistan there are numerous different components that continue making UN expected occasions which causes surprising ruler of business exchange in the economy. These different components like political insecurity, lawfulness circumstance and numerous all the more likewise continue affecting FPI stream in Pakistan. This review will look at the information that tool FPI has been affected throughout the years in Pakistan because of progress in swelling and conversion scale. Be that as it may, the gathered information will clearly have impact of different variables on it. Indeed, even the autonomous factors (swelling and conversion standard) have impact of various different factors. So there would be the odds that Pakistan is at times particularly affected by some unverifiable reason so results can be somewhat extraordinary because of effect of those different components.

Thesis Structure

Thesis is divided into five chapters. It starts from abstract where the reason for thesis is discussed, after that in chapter 2 the Introduction about the study is explained, furthermore introduction is further divided into two factors that are in the first phase history information is discussed then aim of this study is discussed, the main motivations and limitations behind this study. After describing chapter one, chapter two is about the

literature review. In this chapter previous researches and studies are reviewed and you have to relate it according to your topic by giving references with each study. It is also counted as a major part of the thesis. Then comes chapter three in this chapter we discuss about the framework of the thesis, in it we discuss about our dependent and independent variables. Chapter four is about research methodology, where you select a method to conduct your research. In the completion chapter five is all about the results that you find out during research and study, which researcher's recommendations, conclusions and implications for more studies are given.

Research Question

What is the relation Between Exchange rate and foreign indirect Investment in Pakistan?

Hypothesis

Exchange rate fluctuation is positively related with Foreign Indirect Investment

Objective of the Study

Objective of the study is to understand the relationship of Exchange Rate and FPI that how exchange rate fluctuation affects inflow of FPI.

CHAPTER: 2

Literature Review

In the middle of the late 1980s portfolio speculation to creating nations was seen as an advantageous interaction that profited everybody. LDCs were keen to welcome any sort of outside capital inflow in light of the fact that after the obligation emergency of the mid 1980s they were confronting a lack of both remote capital and investible assets. From the supply side likewise there were some solid actuating components which drove the global speculators towards creating nation securities exchanges. The low relationship between's developments in created and creating nation securities exchanges, the deceleration in mechanical nation markets and the high development prospects of the less created markets made them an alluring choice for portfolio enhancement.

The most as often as possible referred to purposes behind the developing enthusiasm for LDCs value markets are that they speak to a quickly developing part of the world economy, they may convey better returns, They give facilitate extent of enhancement of worldwide portfolios, and they speak to a colossal market put however are underweighted in worldwide portfolios (around two percent of aggregate outside values). Advertise members trust that non-obligation streams will remain a critical piece of net outside asset streams from private sources to creating nations in the 1990s. Contemplating the building up countries' share of world GDP (around 18 percent) and worldwide value showcase capitalization (around 5 percent) and institutional financial specialists propensities to dispense their cash proportionately, five percent of the aggregate stream of over \$ 1.0 trillion every year in current dollars of new income is probably going to be accessible for new value issues from creating nations. Likewise universal financial specialists are required to build their weighting in values from the developing markets from the present level of a small amount of one percent to around five percent throughout the following ten years. In addition, some developing markets are generally protected from worldwide markets and tend not to be influenced by market estimation there. Along these lines, their profits don't associate firmly with those of significant markets. This offers impressive extension for broadening by institutional financial specialists to accomplish bring down hazard. The creating nations have likewise been energetic for quite a while to welcome remote interests as outside direct venture and outside portfolio speculation. They are

probably going to profit because of more serious hazard bearing by financial specialists, more noteworthy expansion of speculation fund, diminished cost of capital, and advancement of effective nearby capital markets, more prominent security in the auxiliary markets and an immense new wellspring of value money to take care of the demand of growing local firms through new issues.

In creating nations, particularly after the primary portion of 1980, money related advancement projects depended on the impact of monetary improvement on financial development. Consequently, loan costs increased with the budgetary advancement. Along these lines, investment funds keep running from non-gainful advantages for saving money division. Fast monetary development could have been given by utilizing these assets as a part of profitable ventures. Fleeting capital bearded to creating nations with the impact of monetary advancement programs in a years ago. Free money related approach and the decrease in worldwide financing costs ahead of time nations are the principle reasons. (Eser, 1995). Low loan costs in created nations is push figure and monetary advancement programs in creating nations is force consider for expanding worldwide portfolio ventures (Basoglu, 2000). By the 1990s, after the evacuation of prohibitive controls in household money related markets and expulsion of confinements on worldwide monetary handling, more budgetary emergencies began to happen far and wide. Expanded open doors for gainful arbitrage and hypothesis comprised of a substantial amount and sudden developments in portfolio ventures. These sudden developments are undermining the steadiness of money related and swapping scale approaches and diminish the resistance against budgetary emergency in numerous nations (Delice, 2002). High genuine loan costs and low swapping scale arrangements are connected in Turkey. In years ago, theoretical transient portfolio ventures expanded more as opposed to outside direct speculations because of these arrangements.

Net Portfolio Flows to Developing Countries by Region (in billions)

Regions	2006	2007	2008	2009	2010	2011
Central and eastern Europe	0.783	-4130	-10100	9212	27024	42063
Common wealth of independent states	4.861	19471	-31483	-9541	10380	7596
Developing Asia	-44,462	68707	20861	58160	92698	76960
Latin America and Caribbean	16561	40240	-11955	35479	70818	34243
Middle east and north Africa	-29861	-43678	-3859	9961	3235	29636
Sub Saharan Africa	6950	0480	-29532	-4441	-6616	4171
Emerging and developing economies	-45168	81091	-66068	98831	197539	127055

This table data was collected from IMF World Economic Outlook Database, September 2011.

The above table shows the portfolio investment in billions from year 2006 to 2011, region to region. As we can see various investment variations region to region and year to year.

Impact on Macro Economic Factors

There are numerous macro-economic variables which result to foreign portfolio investment to financial markets. Built on the different lessons,

Factors are determined Are Market size , Interest Rates, Exchange rates, Inflation rates, Economic growth , Government finance (balance of payments), Tax rates on interests or individuals, country risk, credit rating of security, openness , Transaction cost, Rate of return on stock market and disclosure of information. Now we will describe all of them one by them to understand macro-economic factors which effect foreign in direct investments.

Market Size

Market estimate factors are relied upon to influence capital streams emphatically, since bigger nations ought to get a greater number of streams than littler nations (Amaya and Rowland, 2004). The host nation advertise size is measured by GDP (Erdal and Tataloglu, 2002).

Interest Rate

Portfolio streams to creating nations are to a great degree touchy to intrigue differentials. Cash tends to stream to nations with high financing costs on account of the contrasts between the present loans fees in universal markets. In Turkey's economy genuine financing costs are kept in abnormal state. Thus, Turkey draw in more outside capital streams.

Exchange Rate

Sudden and surprising changes in return rates influence global financial specialists' profits in their own particular monetary forms. On the off chance that the danger of such changes in the swapping scale is high, remote financial specialists would expect a correspondingly high rate of come back to reward them for the extra hazard radiating from changes in the conversion scale. This, thusly, diminishes the quantity of venture openings offering sufficiently high rates of return. Consequently, pointedly fluctuating trade rates, or sudden revaluations or debasements in settled trade rates, represent a hindrance to remote venture. Such swapping scale instability will draw in theoretical capital streams as opposed to profitable and managed remote venture (Brink & Viviers, 2003).

Inflation Rates

Inflation speaks to one of the significant dangers to speculators. At the point when the swelling rates begin to rise, speculators get truly apprehensive in desire of the possibly negative outcomes.

Economic Growth

Economic development causes changes in the remote portfolio venture. Financial execution is the real draw considers pulling in FPI into the nation (Duasa and Kassim, 2009). High development rates, particularly in creating nations, is another variable to head the remote capital streams to these nations. Remote financial specialists make

portfolio ventures where the nation's economies demonstrate a monetary change. Outside speculators put resources into a creating nation to profit these nation's development potential and development openings.

Balance of Payments

Government fund is an imperative issue that is relied upon to influence portfolio streams. High financial deficiencies suggest expanding government liabilities. More liabilities could prompt to the need to increment assesses and may in an outrageous case prompt to the inevitable default on worldwide obligation. Henceforth, expansive financial shortfalls increment the nation chance and in this way, keep down potential venture streams. Diverse pointers, for example, monetary adjust, government obligation to GDP and to incomes, and government consumption to GDP ought to be great intermediaries for comprehension government fund (Amaya and Rowland, 2004). In writing, factors to gauge government accounts are Tax incomes/GDP, Fiscal adjust/GDP, Government obligation/GDP and Government obligation/Revenues

Tax Rates

The way of a nation's assessment laws have a vital effect on pulling in remote financial specialists (Chen and Tang, 1986). Speculators construct their venture choices in light of the normal after-assessment form on a venture with an apparent level of hazard. This is one of the key arrangement instruments accessible to creating nations to draw in outside speculation. Exact research has demonstrated that it is additionally a standout amongst the best instruments (Kim, 1999).

Country Risk

Country hazard is the hazard that an account holder nation may not be capable or willing to respect his monetary commitment to an outside moneylender or financial specialist.

Nation hazard is not an effortlessly quantifiable part of hazard, in light of the fact that in born dangers can't generally be measured or anticipated by verifiable patterns. Nation hazard incorporates issues, for example, the danger of war, upheaval, seizure of remote property, or appropriation of property (Jepma et al, 1998).

Credit Rating of Securities

The FICO (financial indicator) assessment is a monetary marker to potential financial specialists of obligation securities, for example, bonds. These are doled out by FICO

assessment offices, for example, Moody's, Standard and Poor's, and Fitch Ratings. FICO assessment offices utilize their judgment and involvement in figuring out what open and private data ought to be considered in giving a rating to a specific organization or government. The FICO assessment is utilized by people and substances to decide the probability that the administration will pay its bond commitments.

Openness

The economy to outside exchange (X/M) is processed by the proportion of fares to imports (Erdal and Tataloglu, 2002). Moreover, the simplicity with which speculators can move capital all through a nation (the openness of the economy) is additionally an imperative determinant of FDI streams (Chakrabarti, 2001). That is, nations with capital controls and prohibitive exchange approaches dishearten inflows of FDI, contrasted with nations with liberal arrangements. The vast majority of the reviews on FDI in creating nations have recognized a positive relationship amongst openness and FDI (Morisset, 2000). Openness considers the connection of host economies with whatever is left of the world. The exact writing has learned that open economies draw in a greater number of streams than intensely secured economies (Amaya and Rowland, 2004). Amaya and Rowland utilize trades in addition to imports to GDP and fares in addition to imports as variables. Pieces to section are anything that hinders beginning a business or entering a capital markets. For some capital markets, hindrances to passage can turn out to be to some degree more entangled due to a characteristic procedure and government command. On the off chance that financial specialists go over numerous boundaries to passage, they won't will to make venture.

Transaction Cost

High exchange costs influence outside financial specialists' decision adversely. Financial specialists will typically incline toward nations where the exchange expenses are moderately low.

Rate of Return on Stock Market

Portfolio speculations are required to decrease in low return time of securities exchanges. Nonetheless, portfolio speculations are required to increment in exceptional yield time of securities exchanges.

Disclosure of Information

Investors require data to figure out which budgetary instruments ought to be purchased or sold. In any case, deviated data forestalls them to settle on choice. This element realizes more issues, for example, instability in costs and low administration of money related instruments. Revelation of data gives evaluating productivity and market certainty.

Later patterns of FPI inflow and surge have been empowering. In the post-2003 period, with the exception of the final quarter of 2005, inflow of FPI has been reliably more noteworthy than its yield.

How do financial specialists allot their stock portfolio universally? The capital Asset pricing model (CAPM) under obtaining power equality predicts that all financial specialists hold the World Market Portfolio paying little respect to their nationality (Grauer 1976). This expectation, notwithstanding, is obviously inconsistent with the information (Karolyi and Stulz 2003), showing that financial specialists consider calculates other than the advantages of universal expansion. Financial analysts require elective hypotheses to depict how speculators dispense their portfolios globally. An imperative group of models declares that cross-country contrasts in stock portfolio designations emerge on the grounds that financial specialists in various nations are invested with various data sets (Stulz 1997).

Nabamitadutta and sanjukta Roy chipped away at the theme of FPI, money related improvement and political dangers in 2011. They took auxiliary information for their examination and utilized time arrangement investigation technique over the execution of nation over the time of times. They utilized board of 97 nations. Monetary improvement and political hazard were in ward factors and FPI was the needy variable. They took a shot at these components and finished up different comes about. Financial development is an essential determinant of FPI .this advancements are for the most part because of the money related circumstance of a nation. Nation with stable political circumstance will have better advancement. Stable political circumstances will draw in the foreign speculator for venture for the more drawn out timeframe. The fundamental torment motivation behind review was to concentrate the part of political relationship with money related improvement and FPI. Consider demonstrated non direct connection. Effect of FD

was discovered negative on the FPI and the political hazard was affecting Financial improvement differently over the circumstances. FPI was not demonstrated extremely successful in FD in the review. So the concentration of study was turned towards the political hazard that down political hazard is connected with FD and FPI. Additionally examining uncovered that connection between the two sides was still not in one course. There comes a point in FD past which connection amongst FD and FPI gets to be distinctly negative and the political solidness likewise moves along yet in marginally extraordinary way. To start with its impact reduction to a level and then begins growing making a concave sort of bend shape. At an exceptionally stable political circumstance FD can get more advantages from FPI inflow increment. So the outcomes finally showed that at more steady political circumstance every level of FD will make more elevated amount of FPI inflows to the nation. Alongside the political solidness some different variables like security of government speculation portfolios, compelling venture and business environment, better foundation yet with insecurity in the political situation of the nation. These variables will contribute less.

(Greenaway 2012) reviews the impact of trade rates on firm fares and the part of FPI. Their study was done on UK economy, conduct of exchange was concentrated because of progress in return rates. Information of various English assembling businesses was gathered and comes about demonstrated that Chan in swapping scale causes less impact on interest of the firm in exchange yet its effect is huge on fare offers. Multinational organizations have gigantic reinforcements to manage swapping scale fluctuation; these reinforcements can be utilized on various purposes also according to the real target of the organization. Conversion standard unpredictability vary around various districts. Concentrate observed that organizations outside the area were less affected by the swapping scale inconstancy than the organizations inside the locale. So this prompts to the conclusion that outside speculators are affected more by the adjustment in conversion scale of the organization than the residential organizations. There principle elements were Export offers and multinational firms.

Cole in (2003) looked at changed hypotheses regarding monetary development and opportunity and their relationship at various stages. He discovered outburst relationship when he tried them through various hypothetical structures. Another creator Scully in

(2002) concentrated the contribution of monetary opportunity in financial development and the cash appropriation in market through basic models. Part of government approaches were likewise broke down through their part in progressing financial advance and its impact through appropriation of market pay.

Comes about demonstrated that monetary flexibility helps in advancing development in economy. He likewise found a significant positive relationship between economic development and inequality of pay. Effect of this trade-off was discovered very little.

Gordillo (2003) concentrated the relationship of monetary development, political flexibility, vote based system and financial development. Comes about demonstrated that economic flexibility was emphatically related with monetary growth yet political opportunity and financial development indicated inconsequential connection. Vote based system seems to be accelerating the financial development and monetary opportunity too.

Chan and Gemayel in (2004) expressed that political insecurity, political hazard, and money related hazard are the principle determinants of FPI in Middle East Countries.

(Sekkat&Varoudakis, 2007) clarified the connection of openness of exchange and FPI. They saw noteworthy connection between the factors. He likewise demonstrated the irrelevant impact of GDP and GDP growth on FPI inflows of creating nations.

(Doucouliagos&Ulubasoglu in 2006) analyzed the relationship of monetary opportunity and financial development through the investigation of 45 diverse writing audits. His review came about that there exists a solid critical connection between financial opportunity and monetary development furthermore that if any review is done on economic growth by disregarding the impact of monetary freedom that review would not give sensible outcomes. Concentrate additionally said that if there is physical speculation than it will offer energy to the financial opportunity.

Relationship between Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI)

Remote venture has been a motor of monetary development in an undeniably globalized world economy, and has been a standout amongst the most vital subjects in the investigation of worldwide business. Researchers of global business have aggregated a far reaching information of the subject. Be that as it may, there are a few lacks in the writing. To start with, most research on outside speculation has concentrated on remote

direct venture (FDI), while the theme of remote roundabout speculation, or outside portfolio venture (FPI), has gotten less consideration (Li and Filer 2007). This prompts to a moment insufficiency in the writing. The relationship between remote direct speculation and backhanded venture has not been adequately inspected. At the point when the extent of FDI as a rate of the aggregate remote speculation into a nation versus the level of the manager of law of the getting nation is plotted, unmistakably nations with a lower level of the administer of law have a higher extent of FDI (Li and Filer 2007). Third, the impact of administration environments that do not have the run of law has not been adequately inspected. As of late, Li and Filer (2007) utilized a moderately new system of administration situations which arranged nations into "lead based" and "connection based" situations with a specific end goal to look at the impact of the administration environment upon the extent of FDI. They found that in the approaching outside venture, administer based nations have a littler extent of FDI than do connection based nations. While Li and Filer (2007) made a commitment in bringing administration environment into the model to foresee the relative sizes of FDI and FPI, a noteworthy downside in their governance structure was that it was constrained to two sorts of nations: run based and relation-based. As Li (2009) later brought up, the two classes were a long way from comprehensive. Nations that have a solid open ordering¹ (i.e. run based) are typically the ones with develop showcase frameworks and propelled majority rule governments, for example, the United States and Western European nations; and nations that need open requesting but then have broad informal connection based interpersonal organizations incorporate numerous Asian nations, for example, China, Taiwan, and Indonesia. Left unexamined in the Li-Filer system is the nations that have neither open requesting nor broad casual informal organizations. For example, as per Li's (2009) new grouping, Argentina, Brazil, and Russia are neither exceedingly governs based nor connection based, yet have a place with a classification which he terms "family-based" (we will clarify this in more detail later). A number of the minimum created nations, for example, a portion of the low-salary African nations, may likewise have a place with this third classification. Indeed, this gathering incorporates a substantial number of nations, yet gets generally little consideration from either approach producers or researchers. All the more critically, these nations can profit significantly from expanded outside aberrant

venture. On the off chance that we aggregate outside speculation as indicated by the overhauled administration arrangement of Li (2009) (in particular, control based, connection based, and family-based), we can unmistakably observe that some intriguing contrasts exist among the three gatherings of nations. While there is no distinction among the three sorts of nations in the volume of FDI inflow, the variety in FDI as an extent of aggregate outside speculation (FDI/FI) is very self-evident: the normal FDI/FI proportion of family-based nations is most astounding, took after nearly by that of the connection based nations. In general, the FDI/FI proportion of connection based and family-based nations is twice that of manage based nations

Major Difference between FDI and FPI

FPI doesn't permit direct connection in the organizations management while making any decision and it does not give any proprietorship to the investor of the assets.

FPI is the fluid venture than FDI and one can undoubtedly auction these securities, while FDI the possession can't be effectively sold, like FPI and Remittances, FPI additionally has numerous significance as a wellspring of financing.it delivers new open doors as new employments into the general population of the country, being quick improvement in the economy and make critical riches. In Pakistan FPI is the biggest wellspring of private capital investment. Different analysts highlight the significance of remote inflows. There are different advantages of remote capital which would incorporate.

Enhancing the host nation's accumulation of capital and the limit of generation, Bringing new innovation and abilities, increasing BOP, Introducing new deal, Marketing strategies, High charge income, new business openings, Employment openings, Economic improvement.

Need for FPI

Exchange prospects, reimbursements of outer advances coming due amid the Seventh Plan and the asset necessities of continuing) monetary growth convert into increasing requirement for outside fund. Over time, India's wellsprings of outer fund have undergone a sensational change. As of late, the conventional dependence on outside (concessionary) help has been supplemented by credit from universal authority organizations and non-occupant stores. On the off chance that one accept sensible prospects of unassuming development in help streams (notwithstanding late set-backs)

and non-inhabitant stores, India would progressively need to tap the between national capital markets.

In perspective of her high credit assessment, India is in a position to acquire both obligation and value financing. The obligation financing would necessarily be business loaning since bond markets have not been effortlessly open to LDCs. The obligation alternative for India will be talked about under India-particular issues of FPI. The value financing can originate from outside direct ventures by multinationals or port-folio speculations. With regard to the value choices, multinational investments have a noteworthy weakness as for control and administration of the firm. Likewise, one speculates that multinationals procure delirium capably high benefits. Notwithstanding, their contribution particularly on innovation exchange mama' be crucial in specific ventures. Then again, portfolio ventures can come either on an individual premise or by means of the international trusts, /shared assets.

General Benefits of Foreign Indirect Investment

Foreign indirect investment will be beneficial if the following things takes effect on Expansion Effect, Source Effect, and Well-being Effect. FPI effects a lot on these three factors, if these factors goes well then the benefits from FPI will be Amplified.

Impact of Terrorism on Foreign Indirect Investment

Now a day's Terrorism is one of the main problem that is faced by many economies .it is a disaster for both social and economic lives of any country. Due to terrorism many foreign investors are afraid to come towards that country for investment purposes. Pakistan is one of the countries whose foreign indirect investment is affected heavily due to terrorism. It also affects the performance of FDI, FPI, remittances, exports, tourisms of the country. The foreign investors always feels threatened and hesitate to invest in countries like Pakistan .Every organization domestic or foreign, wants to invest in an economy which is more safe and who gives more returns in terms of profits.

Foreign portfolio investments (FPI) is the main holder of securities like foreign stocks, bonds financial assets, which are actively managing the power of securities issued by investors. Foreign portfolio investment is the movement of cash into the economy in the

form of bonds and stocks of economy by the venture capitalist, and it is a shorter period investment in comparison with foreign direct investment. The venture capitalists always wants more profit in less time, if they know that they can get more profit in limited time period only then they stay in that economy or country ,otherwise they look for another country which gives higher returns. The domestic economy also afraid from such investors because these venture capitalists are very volatile and unstable and most of all unrestricted, they can also take over organizations.

Push & Pull Theory

In an article, it is stated that the push factors are those which push the investors from those countries which gives low investing chances towards those countries which have very high investing chances. While on the other hand Pull factor is more concerned with the profit margins regardless of investing opportunities. The investors move to a country with greater returns.

Expansion Effect

Outside portfolio ventures would have three sorts of real improvement benefits. On the administrative side, the outside financial specialists would request more productive market regulation, insurance of minority premium, reasonable exchanging and business hones and also sufficient revelation/posting prerequisites. On the institutional side, outside interest would require advancement of new institutions and ventures on one hand and result in exchange of learning and preparing of neighborhood administrators then again. At the market level, long term remote venture would hose theoretical developments and diminish flaws that harrow numerous LDC markets. The change in regulatory, institutional and advertise environment in conjunction with private remote capital would build residential speculator certainty and interest, in this way giving further boost to LDC markets. For a point by point dialog of the (Brazilian &Errunza1979).

Source Effect

Foreign capital may generously lessen the loss of local reserve funds through capital flight by expanding residential financial specialist confidence and also by making accessible a more extensive choice of securities initially outline end to fulfill non-natives. Lessening in capital flight together with the capital inflows in the form of portfolio ventures would augment add up to local investment funds and increment net outer assets.

Well-being Effect

The welfare issue is extremely mind boggling and subsequently includes significant improvement. Here we consider the effect on security valuing, the broadening advantage and the speculator welfare under two progression situations. For finish points of interest, including scientific confirmations and monetary rationale (Errunza & Losq 1985).

Domestic Currency and Foreign Currency

These monetary standards are changed over on the premise of these separate qualities. There rates of trade are otherwise called quotations, Rate of remote trade and forex rate. A large portion of the monetary forms utilize US dollar as the base currency. In a few nations' euro, pounds, Australian Dollar or New Zealand dollar are additionally utilized as base monetary standards. These conversion scales are the set in the remote trade showcase. This market is interested in various purchasers and venders. Monetary forms are exchanged everywhere level and there exchange proceeds with 24 hours aside from on ends of the week.

Exchange Rate Fluctuation

In Market conversion standard will change when there is change in the estimation of either of the two part currency will change. Estimation of cash is likewise subject to the request of the money at whatever point there is more interest for any currency its esteem will increment and at whatever point demand diminishes estimation of money will likewise diminish.

Conversion scale change is reliant on the progressions on both of the part monetary standards. On the off chance that we discuss Pakistani rupee and US Dollar than change in currency rate will rely on upon both of this currency age. On the off chance that there comes higher request of Pakistani rupee in the remote market than interest for Pakistani

rupee will increment and this expansion sought after will likewise build the estimation of Pakistani rupee which will expand the conversion standard of Pakistani rupee, likely if the request diminish for Pakistani rupee than esteem will likewise lessening thus will the swapping scale of Pakistani rupee.

Looking towards opposite side to the relating cash which is taken as US dollar. On the off chance that there is higher request of US dollar in the market than the estimation of US dollar will in increment and this will give negative connection to Pakistani rupee and similarly is that request of USD abatements than its esteem will diminish as will and the relating Pakistani money will acknowledge against it.

This request of cash depends on the business exchanges or the theoretical request of cash. Business or exchange demand is connected with the expanded business action, work, and increase in GDP.

State Bank is the administrative power in Pakistan it is continually attempting to balance out the effect on conversion scale because of shade business exchanges which is a perplexing undertaking. To control and oblige the impact of theoretical exercises is extremely troublesome for state bank. Interest for outside money relies on upon the financing costs too. At the point when there is higher loan fee return than interest for the cash increments as more individuals are occupied with contributing more. Here enormous theorists can compel the state bank to purchase back the possess money. Deteriorate the currency and then after deprecation these theorists' purchases back the cash at low rates and get benefits. For the delivery organizations there could be bigger effect on their costs so the greater part of the bearer organizations charge CAF to remunerate the danger of vacillation. Swelling rate of a nation is exceedingly connected with estimation of the money and its conversion scale with alternate nations. Swelling is one of the many variables which decide the adjustment in the conversion scale of any nation. Expansion negatively affect the conversion scale of the nation and the estimation of money. Expansion implies that capacity of the cash to purchase something is diminishing and the rates are high in the market. Low swelling rate is very little good for the swapping scale

of the nation however high inflation rate will impact the conversion scale in negative way.

Other Factors Effecting Exchange Rate

Inflation rate is by all account not the only determinant of trade rate of any nation. There are various different variables which have huge impact on the swapping scale of a nation like monetary development, exchange adjust, loan fees, obligation level of the nation and a great deal increasingly these all impact the conversion scale of the nation. Every one of the financial specialists look upon all these economic markers while putting resources into a nation. For every nation there are some real markers which are most significant for the financial specialist. That overwhelming variable is most critical for the financial specialist and his choice depends on that real determinant of monetary circumstance of the nation. Now and again the interest rates of the nation are going about as the major financial marker and at some different circumstances interest as the main considerations. So it relies on upon the current circumstance of a nation that where its monetary markers are driving it. Swapping scale are just the relative rate of these currency to purchase and offer. These currency age have no inherent esteem. These swelling rates, financing costs and other might be in the most positive conditions in a nation however they can in any case be not exactly the other nation so there will be generally lower conversion scale of one to the next one.

Theoretical Framework



This theoretical framework shows three independent variables including inflation, interest rate, and exchange rate; whereas there is one dependent variable which is foreign portfolio investment. Exchange rate is the assessment of a country's money with respect

to the money value of other country. Expansion likewise have a nearby connection with the financing costs and impact on loan cost on swelling will again impact swapping scale. Nations dependably continue attempting to keep loan costs and swelling in control however it is not that simple since ether connection is extremely unpredictable and makes high troubles in dealing with that adjust. Higher loan costs draw in FPI which will clearly make higher interest for the money of the nation which give positive impact to the conversion scale yet at similar circumstances these higher financing costs will build the swelling rate of the nation which is adversely related with the Exchange rate of the nation. Low loan fees increment the spending example of the shoppers which cause cash course from one hand to other. This pattern is useful for financial development and this additionally influences the currency estimation of the nation yet this pattern does not regularly draw in FPI.

Esteem or conversion standard of a nation can be expected however the will of the general population to hold the currency of that nation for the more extended period of time. Financial specialists are continually looking for the steady development and stable economy. These are variables are connected with the wellbeing of the financial specialists funding to hold it as that cash. Benefits and incomes are the worries which come after the security of invertors' capital. In politically and monetarily temperamental nation like Pakistan it financial specialists are not particularly eager to hold their speculations for the more extended timeframe. Reason is that in a flimsy domain there is danger of sudden cheapening of the money which can bring about the financial specialist immense misfortune in capital. So financial specialist will waver in putting resources into these monetary conditions or to hold any past venture for the more drawn out timeframe.

CHAPTER: 3

Methodology

The procedure of research strategy and information gathering that must be taken after for the experimental trial of proposed hypothetical system in the past section is portrayed in this part. Method is the beneficial, hypothetical examination of the frameworks connected with a field of study. It contains the hypothetical examination of the systems and standards connected with a branch of learning. It consolidates thoughts like, perspective, theoretical model, stages and quantitative and subjective methods.

Data Collection

Information gathering is among the above all else imperative strides in any examination. Both essential and secondary information is gathered for definite outcomes.

Secondary Data

Secondary information was investigated by experiencing the current writing available in type of research articles; other than this secondary information was additionally broke down by experiencing all around presumed online production network sites and sites.

Research Design

This research is an exploratory research where unit of analysis are the old researches and articles that already present online with old information. As this study was conducted in one time without any pauses, we can further categorize it as a cross sectional study with temporal static and spatial dynamics.

SAMPLING

Sampling Technique

This exploration incorporates random sampling procedure. Information was gathered from articles and websites of SPB and Pakistan Stock Exchange. Sampling is a strategy used as a piece of measurable investigation in which a present number of perceptions are taken from a greater populace.

Research Tool

The research tool used for this study was online thesis or articles. Data was collected from those articles and some specific websites such as Pakistan Stock Exchange and State Bank of Pakistan sites.

Data Analysis Technique

The information gathered was examined in SPSS software and the measurable devices utilized were relationship and direct relapse. T-test is connected on gathered information to test the unwavering quality and legitimacy of information. A t-test is an examination of two masses suggests utilizing measurable examination. Correlation and Regression tests. T-test with two examples is frequently used with little example sizes, testing the complexity between the examples when the variances of two ordinary scatterings are not known.

This test is utilized to get to that whether the method for two gatherings is factually not the same as each other. This test was connected in this exploration in light of the fact that the test measurements in this examination took after an ordinary distribution.

This Analysis is a system of looking into, filtering, changing, and showing data with the target of discovering significant information, proposing conclusions, and supporting essential authority. It has different elements and procedures, including different systems under various names, in different business, science, and humanism areas.

CHAPTER: 4

Data Analysis

Data analysis explains the results of various test applied to test the variables and to analyze their significance and impact on each other to draw conclusion.

4.1: Cronbach's alpha:

Case Processing Summary

		N	%
Cases	Valid	6	100.0
	Excluded ^a	0	.0
	Total	6	100.0

a. List wise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.673	4

The value of Cronbach's alpha must be greater than 0.5. ($p > 0.5$)

Cronbach's alpha shows the reliability of scale used in any particular research. Value of Cronbach's alpha is 0.673 that indicates there is internal consistency of scale used in this research.

4.2: Correlation:

Correlations

			Foreign Indirect Investment	Exchange Rate
Foreign Indirect Investment	Pearson Correlation		1	.869*
	Sig. (2-tailed)			.025
	N		6	6
Exchange Rate	Pearson Correlation		.869*	1
	Sig. (2-tailed)		.025	
	N		6	6

*. Correlation is significant at the 0.05 level (2-tailed).

Correlation shows relationship between dependent and independent variables that how much dependent variable is varying due to increase or decrease in independent variables.

The value of correlation must be from -1 to +1.

+1 shows strong positive correlation between variables, which means that increase in one variable will cause increase in other variable with same value.

-1 shows strong negative correlation between variables, which means that increase in one variable will cause decrease in other variable with same proportion.

This research exhibits strong positive correlation between “Foreign Indirect Investment” and “Exchange Rate” with a positive value of 0.869; that indicates if Exchange Rate will increase, Foreign Indirect Investment will also increase.

4.3: Regression:

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.869 ^a	.756	.695	7.09935

a. Predictors: (Constant), Exchange Rate

R-square, is a measure of the proportion of variability in a data set that is accounted for by a statistical model that how well our variables predict the outcome. The value of R square must lie between 0-to-1.

The value of “Adjusted R Square” is 0.695 which is greater than 0.5, this means there is a strong fit between our predictors and outcomes.

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	623.619	1	623.619	12.373	.025 ^b
	Residual	201.603	4	50.401		
	Total	825.222	5			

a. Dependent Variable: Foreign Indirect Investment

b. Predictors: (Constant), Exchange Rate

Y: Dependent (Foreign Indirect Investment)

X: Independent (Exchange Rate)

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-130.438	45.057		-2.895	.044
	Exchange Rate	161.572	45.933	.869	3.518	.025

a. Dependent Variable: Foreign Indirect Investment

Beta shows that how much Y will be changed (increased or decreased) if X is changed by 1 unit. This table shows that if X (exchange rate) changes by 1 unit, Y (foreign indirect investment) will increased by 0.869.

4.4: t-test:

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Foreign Indirect Investment	6	27.7250	12.84696	5.24475
Exchange Rate	6	.9789	.06912	.02822
Dependent	6	27.7250	12.84696	5.24475
Independent	6	.9789	.06912	.02822

One-Sample Test

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Foreign Indirect Investment	5.286	5	.003	27.72500	14.2429	41.2071
Exchange Rate	34.690	5	.000	.97890	.9064	1.0514
Dependent	5.286	5	.003	27.72500	14.2429	41.2071
Independent	34.690	5	.000	.97890	.9064	1.0514

P-value < 0.05

Dependent variable (Foreign Indirect Investment) is showing a significance level of 0.003, and independent variable (exchange rate) is showing a significant value of 0.00, both values are lower than 0.05. This t-value indicates that independent variable (exchange rate) have a strong significant impact on dependent variable (Foreign Indirect Investment), due to which we are failed to accept our null hypothesis because there is no significant evidence to support null hypothesis.

CHAPTER: 5

Conclusion

Pakistan is a potential stock market for a risk taking investors. Pakistan Stock Exchange is well developed institution; it has potential attractiveness for the higher returns. Foreign Portfolio investments in Pakistan have increased over the years with the growth in Pakistan's economy. There was a rapid growth in Pakistan economy over the years which strengthened the price of rupee and controlled the unpredicted variation in Exchange rate, this stability increased confidence of foreign investors to invest in Pakistani Market is a developing is in developing stag, it have good fortune in natural resources. In Pakistan. The main focus was to determine the effect of Exchange rate on FPI on the basis of 5 years of data. Results have shown that exchange rate and Foreign Portfolio Investment have Positive relation. Growth in Exchange rate will increase the value of FPI and decline in Exchange will decrease FPI inflow in Pakistan.

Recommendations

Pakistan stock exchange is doing good business. Share prices are increasing, there are no big negative events accruing in the country compared to past, political situations are stabilizing, infrastructural development is getting stronger. Markets are growing good so it's time for the country to generate bigger opportunities for the foreign investors to invest in Stock Market. With the inflow of foreign investment there would be increase in economic growth and stability of the country and more opportunities for the investment will prevail in the market.

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