

Major: FIN
S. No.16

“FINANCIAL IMPACT OF TERRORISM ON MACROECONOMIC
INDICATORS OF PAKISTAN”



BY:

MUHAMMAD ALI RAZA

01-222151-028

SUPERVISOR:

HINA SAMDANI

Department of Management Sciences

**Bahria University Islamabad
2016**

FINAL PROJECT APPROVAL SHEET

VIVA-VOICE EXAMINATION

DATE :11/01/2016

TOPIC OF RESEARCH: *“FINANCIAL IMPACT OF TERRORISM ON
MACROECONOMIC INDICATORS OF PAKISTAN”*

NAME OF STUDENT: *MUHAMMAD ALI RAZA* , **ENROLL:***01-222151-028*

CLASS: MBA

APPROVED BY:

(HINA SAMDANI)

THESIS SUPERVISOR

(DR. TAQADUS BASHIR)

EXAMINER-1

(SHEHZAD BUTT)

EXAMINER-2

(DR. SARWAR ZAHID)

RESEARCH COORDINATOR

(DR.MUHAMMAD ALI SAEED)

HEAD OF DEPARTMENT MANAGEMENT SCIENCES

ACKNOWLEDGEMENT

This thesis would not be completed without the help of many individuals and I am grateful to all of them. I am thankful for the kind help and support of my supervisor HINA SAMDANI. I sincerely appreciate the help and coordination of research cell of Bahria University.

The idea of doing MBA was proposed to me by my Mentor “Prof Ahmed Rafiq Akhtar”, So I am dedicating this thesis to him.

Dear Sibghatullah Khan , I am sincerely indebted to your kind help and support in every step of this thesis. Your knowledge and insight of econometric techniques and research process is amazing. I hope you would achieve great heights in research field.

I am grateful for the efforts and support of my parents and my siblings. Fakher I am grateful for your help in editing this thesis.

MUHAMMAD ALI RAZA

TABLE OF CONTENTS

Title page	i
Approval sheet.....	ii
Acknowledgement	iii
Table of Contents	iv
List of Figure	vi
List of Equation	vii
List of tables	viii
Abstract	ix
INTRODCTION	1
1.1 Background, History And Dynamics Of Terrorism In Pakistan	4
1.2. Importance And Significance Of The Study	11
1.3. Research Questions	11
1.4.Research Objectives	11
1.5.Structure Of Thesis.....	11
LITERAURE REVIEW	12
2.1 Studies In Foreign And Global Context.....	12
2.2 Evidence From Pakistan.....	20
METHODOLOGY	26
3.1 Theoretical Frame Work.....	26
Dependent Variable.....	26
Independent Variables:.....	26
3.2. Functional Form	27
3.3. Reason For Selecting The Variables:.....	27

3.4. Hypothesis	28
3.5. Statement Of Problem.....	29
3.6. DATA.....	29
3.7. Regression Test Performed.....	30
3.7.1. Augmented Dicky Fuller	30
3.7.2. Granger Causality Test	32
3.7.3 Johansen Co-Integration Test:.....	33
1.Trace Stat	33
2. Maximum Eigenvalue Stat.....	34
3.7.4 Error Correcting Model.....	34
RESULTS	35
4.1 Augmented Dicky Fuller.....	35
4.2 Granger Causality Test.....	36
4.3 Johansen Co-Integration Test.....	37
4.4 Error Correcting Model.....	39
CONCLUSION.....	42
REFRENCES	44
ANNEXURES.....	i

LIST OF FIGURE

Figure 1 Global Terrorism Database.....	6
Figure 2 Theoretical Frame work.....	26

LIST OF EQUATION

Equation 1: $\mu^* + \alpha_1 \ln CAU + \alpha_2 \ln TO + \alpha_3 \ln REM + \alpha_4 \ln VA + Dum + U_i$	27
Equation 2 $\Delta Z_t = \mu Z_{t-1} + \beta_t + \sum_{n=1}^n (Z_t - 1)$	31
Equation 3 $\Delta Z_t = \alpha + \mu Z_{t-1} + \beta_t + \sum_{n=1}^n (Z_t - 1)$	32
Equation 4 $\Delta Z_t = \alpha + \mu Z_{t-1} + \beta_t + \sum_{n=1}^n (Z_t - 1) + \Omega$	32
Equation 5 $\Delta Y_i = \phi_1 u_{t-1} + \sum_{i=1}^n \beta \Delta X_{t-1} + \sum_{i=1}^n \gamma \Delta Y_{t-1} + ut$	34
Equation 6 $\Delta X_i = \phi_2 u_{t-1} + \sum_{i=1}^n \beta \Delta X_{t-1} + \sum_{i=1}^n \gamma \Delta Y_{t-1} + ut$	34

LIST OF TABLES

Table 1 Augmented Dicky Fuller	35
Table 2 Granger CausalityTest	37
Table 3 Johansen Co Integration test	37
Table 4 Error Correcting Model	41

ABSTRACT

Topic: *Financial Impact of Terrorism on Macroeconomic Indicators of Pakistan.*

For researchers rhetoric and clichés about terrorism and its socio-economic impacts are not sufficient. Quantification of relationship between terrorism and its socio-economic impacts is required. This study is an attempt to find the nature of relationship between terrorism and macro economy of Pakistan. Casualties by terrorism are chosen as independent variable and GDP per capita is chosen as dependent variable. Trade Openness, Aggregate value added, and remittances are also used as independent variables. The data for all variables is collected for the period 1980-2016 from World Bank, GTD and SATP. Unit root, Granger Causality, Johansen Co-integration, and Error Correcting Tests are applied to check the significant long run relationship between dependent and independent variables. It is found that there exists a significant long run negative relationship between GDP per capita and terrorism casualties. 1% increase in Terrorism casualties would decrease GDP by 0.027% or vice versa. Also Value added, trade openness and remittances have significant long run positive relationship with GDP per capita. On the basis of quantitative findings focused socio-economic policies can be designed for a tolerant and peaceful society with strong and growing economy.

Keywords: *Terrorism, Casualties, Socio-economic, GDP, Trade Openness, Aggregate value added, Remittances*