Empirical Estimation of GDP determinants, Household Consumption Expenditure and the Consumption Multiplier in Pakistan (1985-2011)

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**Abstract**

Present study empirically estimates the impact of consumption on Gross Domestic Product in Pakistan using annual data for 27 years (1985-2011). Stepwise regression method is applied on GDP as dependent variable and several other variables like Household Consumption, Foreign Direct Investment, International Trade, Domestic Savings, Value Addition in Industry, Agriculture and Services Sectors taken independent of each other, External Debt, Remittances, Gross Capital Formation and Population as independent variables. The empirical results suggest that the change in GDP is significantly explained from the change in Agriculture and Services Sectors’ Value Addition, Gross Domestic Savings, External Debt and Household Consumption. The Standardized Beta values of the coefficients of accepted variables suggest that the household final consumption expenditure is the biggest determinant of GDP out of the accepted variables. Further the consumption multiplier has been estimated from the estimated value of marginal propensity to consume (MPC) which suggests that rise of each Pakistani rupee (local currency) in household income leads to a rise of PKR 0.821 (Pak Rupee) in household final consumption. Further, given the MPC value, through induced expenditure, the multiplier effect is thus estimated at 5.587.

**Keywords:** Gross domestic product, Marginal propensity to consume, Consumption multiplier, Stepwise regression,

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