

Latest Issue

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ABSTRACTS

**Chronic and Transitory Poverty in Pakistan:
Evidence from a Longitudinal
Household Survey**

G. M. ARIF and FAIZ BILQUEES

This paper analyses the incidence of chronic and transitory poverty in Pakistan in both urban and rural settings. The findings are that rural poverty is severer and also chronic as compared to transitory poverty in urban centres. The main factor behind this phenomenon is the homogeneity of the rural set-up which affects the employment and wage levels adversely. On the other hand, in the urban areas, heterogeneous population with diverse occupations provides better employment and wage opportunities. Furthermore, illiteracy, landlessness, lack of ownership of dwellings, and dependency on sharecropping are the main factors accentuating rural poverty. The paper also analyses the *zakat* element of the safety net strategy. Contrary to the prevailing perception that *zakat* does not reach the actually poor, it turns out that in fact *zakat* has become an "identification mark" for the chronic poor. The findings of this paper have significant implications for the poverty reduction strategy of the Government of Pakistan.

**Determinants of Interest Spread
in Pakistan**

M. IDREES KHAWAJA and MUSLEH-UD DIN

Interest spread of Pakistan's banking industry has been on the rise for the last two years. The increase in interest spread discourages savings and investments, on the one hand, and raises concerns about the effectiveness of the bank-lending channels of monetary policy, on the other. This study examines the determinants of interest spread in Pakistan using panel data of 29 banks. The results show that the share of interest-insensitive deposits in total bank deposits is a key determinant of interest spread, whereas industry concentration has no significant impact on interest spread. Furthermore, the

ongoing merger wave in the banking industry will limit the options for the savers, with adverse implications for the interest spread. We argue that to maintain a reasonably competitive environment, merger proposals may be subjected to review by an anti-trust authority.

Do Public Expenditure and Macroeconomic Uncertainty Matter to Private Investment? Evidence from Pakistan

IMTIAZ AHMED and ABDUL QAYYUM

This study examines the role of macroeconomic uncertainty and public expenditure in determining private fixed investment in Pakistan. It is found that individual series are non-stationary. There is a long-run relationship between private fixed investment, public consumption expenditure, public development expenditure, and market activities. It is revealed that public development expenditure stimulates private investment, whereas public consumption expenditure is detrimental to private investment. The preferred dynamic private fixed investment function confirms that in the short run, public development expenditure enhances private investment. Moreover, macroeconomic instability and uncertainty depresses private investment in Pakistan.

Trade Reform, Capital Mobility, and Efficiency Wage in a Harris-Todaro Economy

TITAS KUMAR BANDOPADHYAY

The main purpose of this paper is to analyse the impact of trade reform on unemployment and social welfare in a Harris-Todaro (1970) economy with efficiency wage and capital mobility. The analysis shows that capital mobility plays an important role to influence the impact of trade reform on unemployment and social welfare. We find that trade reform raises urban unemployment and produces an ambiguous effect on social welfare when capital is perfectly mobile among the three sectors. However, such policy lowers unemployment and raises social welfare when capital is imperfectly mobile.