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Cost-push shocks and inflation: An empirical analysis from the economy of Pakistan

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Abstract

The present study was designed to examine the validity of cost-push and monetary diagnosis of inflation through empirical analysis. The empirical analysis had been conducted by using the technique of ordinary least square using annual data for the periods from 1971 to 1972 and 2006 to 2007. Before applying OLS, the stationarity of the data was checked by augmented Dickey Fuller (ADF) test. Regression analysis proves that cost-push factors are not less important than demand-pull factors in generating inflation. The monetary variables have significant impact on CPI (consumer price index), WPI (whole price index) and GDP. There is no single remedy to control inflation. Government should adopt multipurpose strategy such as improvement in tax and revenue structure, improving fiscal and monetary discipline, removing supply side disruptions, eradication of anti-competitive market practice.

Keywords

Cost push monetary policy inflation Pakistan

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