

Market capitalization and growth linkage in economy under default: The case of Pakistan

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Abstract:

The classification of Pakistan Stock Exchange in MSCI's emerging market index gave the boost necessary to attract international investors to the country. However, staggering growth in recent past, money laundering allegations and the political turmoil amidst country wide war on terror has made it fairly difficult for the country to build its competency in terms of a stronger market of trade and exchange. In the overall scenario of an emerging economy under conditions of default, the relationship between stock market development and economic growth is contentious. In the overall scenario of an emerging economy under conditions of default, the relationship between stock market development and economic growth is contentious. Therefore, capacity building in an economy through stock market expansion may prove an impetus for sustainable economic growth. However, does this relationship remain same in an economy facing default on international settlements? The aim of this paper is to find an answer to this question. This paper discusses the theoretical model formulation and identification of indicators of economic growth and empirical analysis through GMM to reflect on capacity building with stock market expansion and suggests measures to improve capacity building to foster sustainable economic growth.

Keywords: Market Capitalization rate; Gross Domestic Product; Capacity Building; Default

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