

Business cycle of pakistan 1960-1970

Business



The path of economic growth for any country depends on a number of factors including structural changes in the economy, natural calamities, political instabilities, global recessionary trends, self-feeding business cycles, etc., and the combined effect of all these factors is most commonly represented in the country's Gross Domestic Product. In statistical terms, however, the annual data series of GDP can be considered a combination of three processes; a long-run trend, business cycles, and short-run shocks to the economy, which can be separated from each other by using statistical techniques. The objective of this assignment is to decompose real Gross Domestic Product of Pakistan into Business Cycle

Question: What Is the Business Cycle? Answer: Parkin and Bade's text "Economics" gives the following definition of the business cycle: The business cycle is the periodic but irregular up-and-down movements in economic activity, measured by fluctuations in real GDP and other macroeconomic variables. The term business cycle (or economic cycle) refers to economy-wide fluctuations in production, trade and economic activity in general over several months or years in an economy. The business cycle is the upward and downward movements of levels of GDP (gross domestic product) and refers to the period of expansions and contractions in the level of economic activities (business fluctuations) around its long-term growth trend. These fluctuations occur around a long-term growth trend, and typically involve shifts over time between periods of relatively rapid economic growth (an expansion or boom), and periods of relative stagnation or decline (a contraction or recession).

Business Cycle of Pakistan 1960-1970 The economy started recovering by 1960. Interestingly, the recovery period is shorter than the recession. It may be postulated that appropriate economic planning and its effective implementation helped the economy recover quickly.

Note: Unit of Y-axis is natural log of million rupees Recovery ; Boom Also known as an upturn, the recovery stage of the business cycle is the point at which the economy " troughs" out and starts working its way up to better financial footing During 1960s, the growth of trend component was rising while the second half witnessed a slow down. This pattern of growth has some bearings on structural developments in early 60s including the green revolution, the industrial revolution, the development of financial institutions, etc.,

Factors or variables business cycle of 1960-1970 In the early 1960s, Pakistan was seen around the world as a model of economic development. Many countries sought to emulate Pakistan's economic planning strategy and one of them, South Korea, copied its second Five Year Plan, 1960-65. In the early 1960s, the per capita income of South Korea was less than double that of Pakistan (Maddison, 2001). But South Korea became by far the more developed, with GNI per capita in 2006 of \$22990 compared with Pakistan's \$2410, using purchasing power parity (World Bank, 2007). Consistent with the endogenous growth model, in conjunction with a broad policy or environmental shift, Pakistan's economy experienced an apparent permanent increase in the growth rate by the 1960s. Pakistan's average annual real GDP growth rate of 5.3 percent since then has not matched

those of the East Asian miracle countries. Yet, per capita GDP growth surpassed that of the typical developing country

Second Five-Year Plans (1960-1965) Despite the failure of first five-year plans, the programmes were revived and restated by the military government of President Ayub Khan. The second five-year plans gave highest priority to heavy industrial development, advancement in literature and science, and had single underlying purpose: "to advance the country as far as possible, within the next five years, along the road of these long-range objectives.". Further improvements were made in railways, communications, and transportation.[10] More attention was given to private-sector industrial development and agricultural industries; the second five-year plans aimed to increase the national income by 20%.

The unemployment was tackled with the industrialisation of the country. This mix of private enterprise and social responsibility was hailed as a model that other developing countries could follow. The second five-year plans oversaw the development of water and power utilities in East and West Pakistan and the energy sector was built with the help from private-sector. The financial services heavily depended on the foreign investment and aid from the United States that bolstered the economy. The second five-year plans were a quiet success but it was partially due to generous infusions of foreign aid, particularly from the United States.

Third Five Year Plans (1965-1970) The country had become urbanised by 1970 and only 10% population lived in rural areas as compared to 1950. The third five-year plans promoted the activities of private sector investment and tend to increase the directly productive investment for the stable financial

sector development. The third programme focused on Gross national product (GNP) growth which was increased at 122% and had focused on the enhancing the capabilities of private sector to operate in the country. Although the third programme successfully ran for the first three years of the Third Five-Year Plan, but at the end, the third programme proved to be even more of a disappointment in terms of proclaimed production goals. The performance of the third programme was undeniable that led the economical disaster in the country. Dramatically, the agriculture growth sharply declined and desperately devastated the farming class of the country.