Impact of Foreign Capital Inflows on Household Savings in Pakistan

Muhammad Abdullah Idrees, Ayesha Khan, Muhammad Arsalan Khan, Muhammad Bilal, and Muniza Syed

Abstract — This study aims to discover the impact of foreign capital inflows (FDI, RT and FA) on household savings of Pakistan. Data used in this study has been obtained from the website of State Bank of Pakistan for the period of 1981-2010. Statistical tools including multiple regressions analysis was applied for analysis. Results explain that foreign direct investment (FDI), remittances (RT) are having positive and significant impact on household saving (HS) but foreign aid (FA) is having negative and insignificant impact on household saving, so it is recommended that if a developing country like Pakistan wants to increase the household saving it should give thoughtful importance to FDI and RT than FA with respect to household savings in Pakistan.

Index Terms — Household Savings, Foreign Direct Investment, Remittances, Foreign Aid.

I. INTRODUCTION

A. Overview

A part of earnings no longer up or used is referred to as savings. Many motives are found within lifestyles of a character that ends in the non-consumption of income which incorporates including:

1. Unexpected screw ups in existence like fired from process and hospitalization fees and so forth.
2. Need to have a higher life-style by using obtaining luxurious items like automobile and jewelry and so on.
3. To live a Non Violent retirement.
4. Academic costs for his or her love ones.
5. Purchasing of constant property.
6. Having destiny plans need to spend money on an enterprise or desires to have its personal small business.
7. Future savings occasions like marriage or wedding ceremony or vacation journey to overseas.

Saving motives have been extensively classified by the experts of economics into three elements. First, extensive or long term targets, because of this to store part of their earnings a good way to keep away from destiny uncertain situation. Secondly, Savings are used for emergencies and third thing to make available that savings for their relatives and siblings.

All motives of savings are essential and are important elements. A country’s profits degree which represents a considerable quantity of family savings [8]. Elements of savings have splendid significance on the trade in financial condition in lots of developing nations. Beyond a whole lot of work has been accomplished efficaciously on family savings consumption pattern [8], than was reported by [2] and [6]. They have analyzed the conduct of house hold savings with the aid of the use of micro levels facts found [21] they explained why many households do not save and another reports analyzed household saving with uncertainty of incomes. Later researchers have analyzed household savings recognized to their family length [3]. Another study analyzed the impact of demography, growth and public policy and these investigated that is there any difference between intra rural areas of district Karak, Pakistan on household savings [22]. [18] described household savings was also analyzed with teachers, small holder farmers and entrepreneur and others.

A lot of work has been executed previously to apprehend household savings behaviors and impacts of different variables on household savings. Still, there is little work done to investigate the influence of overseas capital inflows (remittances, foreign direct investment and overseas useful researches) within Pakistan (related to family savings). Even though [6] was analyzed foreign direct investment (FDI), overseas resource and different variables to discover the influence on country wide savings by these variables. Another study by [8] have examined the socio financial traits (which consist of many factors including career, education, employment reputation, dependency ratio and age of family head and so forth) and household savings by means of the use of the data of rural and urban for the period of one year,1984. In this research, remittance, FDI and foreign aids are used to have a look at their impact on household savings. In this paper we find out the effects of overseas capital inflows and foreign investment on household saving rate of Pakistan.

B. Problem Statement

Previously [5] studied to find out the effects of demography, boom and public coverage on household savings but the effects of overseas capital inflows on family income on family savings and impacts of foreign aids on household saving in Pakistan. So the motive of this study to find out the effects of overseas capital inflows by direct investment or aids on family saving rate of Pakistan.
C. Research Question

Do foreign capital inflow in term of direct investment or aids have impact on household saving in Pakistan?

D. Objective of Study

Previously there is little research has been executed on the effects of overseas capital inflow on family saving of Pakistan. So here we tried to find out by using different data analysis tool on the impact of overseas capital inflows on family saving in Pakistan.

E. Significance of Study

This study will help out the Economists of Pakistan in figuring out the exact and better coverage for the country, and it’s going to demonstrate that overseas inflows impact on family saving price. As a end result top regulations will come up and standard the financial condition of the country could be much higher due to the fact the household saving make a contribution a large share at United States of America earnings degree.

F. Limitation of Study

The minimum variety of remark requirement for regression analysis can’t be fulfilled due to the fact every year records has been used on this research and month-to-month records isn’t available.

G. Delimitation

This study is limited to discover the effect of foreign capital inflows on family savings handiest. Public savings and company saving isn’t considered in this research.

II. LITERATURE REVIEW

[8] used the records of residence maintain income, & expenditure survey for length of 1984-85 to investigate the pattern of family saving in Pakistan, which changed into collected by means of the statistic survey of Pakistan. Analyzed variables are dependency ratio, training, employment fame, incomes repute, Profession, secondary earner and household head’s age. Applied methods for the collected records become normal least square (OLS). Outcomes concluded the behavior of saving in rural vicinity is greater than urban and capability to save will increase with the age however has a tendency to decline whilst the age crosses a positive restriction.

[7] attempted to discover the effect of the subsequent variables (dependency ratio, socio-monetary and demographic variables, earnings, interest price, inflation and financial variables) on the saving rate of Pakistan, the usage of time-collection information. Normal Least square (OLS) is used to analyze the records. The result concluded that the variables which have sturdy effect on saving price are in step with capita earnings, dependency ratio, real hobby price and overseas capital inflows.

[19] analyzed the conduct of saving in Pakistan, for the length 1969-1988 and the statistics changed into accumulated from house maintain earnings and Expenditure Survey (HIES) that is acquired from Federal Bureau of data. Approach used on this paper changed into Weighted Least square (WLS) to estimate the saving function. Variables taken into consideration in this paper are physical belongings (earnings and durables and many others), human capital (expenditure on fitness and training), household age, size and income. End result suggests that unconsumed goods and assets are extra attentive to alternate in income than rings and the increasing populace is displaying a strong poor impact on saving. It shows that our country needs urgently an amazing populace policy.

[21] attempted to locate the empirical determinants and their impact on family saving by using taking greater explanatory variables. 21 OECD nations (organization for economic Cooperation and development) facts changed into taken for the evaluation, for the duration of 1975-95. Variables used on this research are ratio of family saving as structured variable, and the impartial variables are public saving, company saving, unemployment charge, family disposable profits, actual hobby price, inflation, direct/indirect taxes and dependency ratio. Regression evaluation is used in this paper. Results concluded that public policy has a great influence on the household saving decisions.

[6] analyzed the micro level information which is taken from residence maintain earnings and expenditure survey (HIES) for the period of one year 1993 to 1994 of Pakistan obtained from Federal Bureau of Statistics. To obtain household saving residual approach was used. This study concluded that uneducated families keep saving extra than educated families because they want to keep their standard high throughout the life and authoritative regions save more than private zone. They found that knowledgeable families have extra price for saving than uneducated families because they need to keep high living standard.

[2] used some panel information set to explain the saving pattern and profits uncertainty in Britain families. Records were obtained from British family Panel survey (BHPS) for the period of 1991 to 1998. Analysis was done through descriptive facts and regression analysis to investigate the data and for conclusion. Results show full size precautionary aspects in savings. Main focus of this survey was to find out the cause of savings. In results many solutions was given including holidays, old age savings, vehicle purchasing, no special purpose and very own training and others. Saving for no special motive was considered as precautionary savings.

[20] attempted to made curting between household saving and real in line savings. Real charge of hobby, authorities’ savings and social savings for G-7 countries which includes Canada, Japan, France, Germany, USA, UK and Italy. The records were obtained from company for economic cooperation and development (OECD) for the period of 1960 to 1999. Statistical analysis tools of regression analysis was used and results of this study indicated that authorities saving positively increase in family savings, discounts in social safety also enables to growth savings keeping other matters constant. It was also found that long run impact of unnecessary actual interest rate will increase family savings on common for all evolved countries. To boom the price of personal saving different incentive must be considered.

[18] studied to find out the long term and short time period impact of saving behavior in Fiji for the period of 1968 to 2000, they consider based and impartial variables in which savings a s a based variable and profits, actual interest
price, age dependency ratio and contemporary account deficits (CAD) as impartial variables. Statistical tool used in this research includes are Dickey Fuller kind Regression and Co- integration. They concluded that if government of Fiji desires moderate savings fee in Fiji they should have to direct their laws and rules towards attaining excessive increase charge. Contemporary account deficit is inversely related with savings.

[14] reported the behavior of household saving in Pakistan by using of Augmented Dickey- Fuller (ADF) and Johansen- Juselius co-integrated techniques. They used data from monetary survey of Pakistan and National Bank of Pakistan annual reports from the periods of 1972 to 2003. They used established or base variable and impartial variables. Impartial variables includes dependency ratio (DR), inflation ratio (IF), boom charge consistent with capita earnings (GR), keeping with capita profits (laptops), Public savings (PS), actual interest rate (IR) and base variable includes household savings (HS). Results of this study were concluded that GR, laptop and interest rate have positive and high impact on household savings. On the other hand dependency ratio and inflation rate have insignificant impact on household savings and Public savings have inverse or negative impact on household savings. They suggested that by considering these parameters government of Pakistan need to make policies to promote household savings.

[3] reported the impact of family savings with family size in Philippines. They collected the data from annual Poverty indicator Survey (APIS) of 2002. Descriptive statistics and ordinary least square (OLS) were used to analyze the data obtained from annual survey reports. Results showed that extra children in family have terrible effects on family savings beside miserable effects on country saving prices. The no. of kids in a family inversely proportion to household savings. If no. of children is going to reduce in a circle of relatives it will raise the price of household savings and protect households from profits short falls.

[12] used microeconomic approach to find out the factors involved in the household savings among teachers, entrepreneurs and farmers in rural regions of Nakuru district of Kenya. Total sample size was 359 individuals and least square statistical tools were used. Results showed that the major factors involved in the determination of household savings are career, household earnings, age, and gender of family head, stage of kids schooling, dependency ratio, carrier fee, transport prices and credit score also effects on household savings. This study may be very vigorous for the decision makers in financial institutions and economists.

[1] studied the improvement of fashion sectors in Pakistan and compare it with the factors in economics of South Asia. Techniques used in this study were co-integration evaluation and the usage of the usage of the information of savings price and its determination for the periods of 1970 to 1993. Finding of this study was proved that financial development is one of the most important determinations for the long run saving in Pakistan. It was also concluded that the charge of saving for private has shown increment but when compare with south Asian economics Pakistan’s saving overall performance is vulnerable.

Charles and Junmin [9] studied different factors from survey for the time periods of 1995 to 2004 to analyze dynamic panel analysis on the household savings of China by using different statistical tools from China household. Factors involved used to identify the determination of family savings in China are hobby fee (IR), inflation (IF), Dependency charge (DR) and profits increment charge (IGT). Final results had been that China’s household fee is raising and the factors involved causing deviation are IF, IR, and IGT however factor relating to age don’t have considerable effects on household saving price.

[16] was analyzed different factors involved from 74 international countries to investigate the impact of dependency ratio on prices of savings between western evolved and growing nations. Variables involved are savings/income ratio and intake of working age. Multivariate regression analysis approach was used to analyze the data. Results showed that consequences have been that dependency ratio has impact on saving ratio for all 74 countries.

[13] studied the relationship between overseas capital inflows and household saving in Pakistan. Statistical tools which they used are three version of co-integration approach and the time period of data for the period of 1972 to 2000 and the data analyzed in this study are domestic saving rate, according to capita GNP and inverses capital inflows as percent of GDP. Results showed that long term behavior and inverse show exist between foreign capital inflows and saving charge.

[22] investigated that, is there any distinction exist between distinct rural regions regarding family saving for three tesbils of districts of Karak (Pakistan) and pattern of 300 respondents (a hundred from every) have been decided on, data changed into collected through questionnaire, structured variable changed into annual household saving and independent variables are annual disposable income of household, gender of household head, ownership of farm animals, possession of land and aid ratio of family [(Total Family Size- No of Unemployed)/ Total Family Size]. ANCOVA econometric technique is used to investigate the information and consequences concluded that gender of household head have poor effect and shows that girl family head keep extra than male head, ownership of stay stock, ownership of land and income have nice impact on household saving. One policy for all rural regions is not pleasant; multiple policies for distinct regions will help improve in saving.

[10] studied the functions involved in the Estonian household which affects the saving behavior. Data were collected from Estonian family budget survey from the period of 2002 to 2005 year. Statistics apply to analyze was regression analysis which is used to find out the significant factors. Analysis concluded that ownership of actual estate does not have an impact on household savings however ownership of long lasting goods, money deposits, other financial properties, higher educations, debt and leasing liabilities are associated with lower savings. Young and old elderly households have high tendency to store than middle age families thus they have more impact on household savings then middle age families.

[11] describes the fashion, function and its effectiveness of foreign investment and other resources within the
monetary development of Pakistan for the period of 1960 to 2002. Statistical analysis which is used by [11] is Quadratic regression which analyze the facts and consequences display that foreign aids has terrible impact and in addition it has beneficial effects on financial development. Significant effects of foreign capital inflow has helped in growing the GDP price in Pakistan but at a reducing price, and the insignificant effect of useful resource has precipitated decrease in domestic savings and in debt growth rate.

III. METHODOLOGY

This part will discuss the methodological which we followed to conduct our research includes many parts. Research approach, research design, sample size, different variables, techniques used to analysis, method of data collection and model we used for analysis and hypothesis.

A. Research Approach

Quantitative research technique which is most commonly used for research because it convert information into numbers and allows researcher to deal with statistical tools easily and results are more predict in significant or insignificant way, big pattern can be used effortlessly in quantitative techniques, it specializes in quantity and finding can be generalized. In this study we focus on the subsequent variables foreign direct investment (FDI), foreign aids (FA) and remittance (RT) to discover their impact on family savings price in Pakistan. A huge sample from the periods 1981 to 2010 was used, all numeric facts was used. The main focus of this study was to quantify the effects of foreign capital inflows on family savings of Pakistan, therefore quantitative analysis was used.

B. Research Design

The studies design is the component of the observation by means of which records collections, objectives to develop the set of techniques and strategies and facilitates to analyze the study questions. The study layout of this research is corollational and the motive of this correlation studies layout is to investigate the magnitude to which relation exist between established and unbiased variables. This technique will assist in the applying ideal statistical techniques for the evaluation of the statistics.

C. Statistical Tools

In this study we used the software Statistical package for social sciences (SPSS) and statistical evaluation device (SAS) tools for the evaluation of the information and to characterize the findings.

D. Statistical Techniques

In this research techniques used for analysis purpose of the data is more than one regression evaluation. This approach will allow us to analyze the effects of more than one independent variable over a single dependent variable.

E. Model Used for Analysis

To investigate the causes and their effects on influences on the capital inflows from abroad on household savings of Pakistan, we used four different variables out of which three are unbiased and one is relies. To observe the variables empirically, version can be advanced as underneath:

Model 1

\[ Y = \alpha + \beta_1 FDI + \beta_2 FA + \beta_3 RT + \varepsilon \]

where,

- \( Y \) = Household savings
- \( FDI \) = Foreign Direct investment
- \( \beta_1 \) = Coefficient of Foreign Direct Investment
- \( FA \) = Foreign Aid
- \( \beta_2 \) = Coefficient of Foreign Aid
- \( RT \) = Remittances
- \( \beta_3 \) = Coefficient of Remittances
- \( \alpha \) = constant
- \( \varepsilon \) = Error term

F. Research Hypothesis

- \( H_0 \) = Foreign capital inflows have insignificant impact on household savings in Pakistan
- \( H_1 \) = Foreign capital inflows have a significant impact on household savings in Pakistan

G. Variables involved in Study

Our purpose of this study is to analyze and become aware of the effects or influences of the foreign capital inflows on household saving in Pakistan. The outline of these variables discussed in this study is given below.

1) Remittance

Remittance is the shifting of money with the aid of foreign people to their home country. Money send by using foreign workers occupies a large proportion in economics influx of the any country.

2) Foreign Direct Investment (FDI)

FDI included any kind of funding which originates from abroad for the neighborhood groups through the companies or foreigners to earn money from that country. FDI can be either inward investment or outward investment. Inward FDI is a way of influx on investment from overseas and outward FDI is the outflow of investment from Home County to other country. Inwards flows of foreign direct investment are very useful for the developing international locations and outward flow is commonly performed developed nations.

3) Foreign Aids

Overseas useful resource foreign aids are voluntary transmit of sources (can be in the form of direct aids by giving money, giving equipment or talents etc.) from one country to another country, partially for the purpose of benefiting and to increase the extent of monetary overall performance the recipients. The county which offers useful resources are called donor and country or states receive this aids is known as recipient.

4) Household Savings

Household savings includes the profits which are not consumed for some future plan or saved for occasion. Savings are of two types, which can be public and private savings. Personnel savings includes company and family savings. In this study the focal point is on household savings which conquer a big proportion in personal savings which contribute in the Pakistan’s profit stage.

H. Data Source

In this study we used secondary data to find out structured and impaired variables. The facts and data got from official State Bank of Pakistan website and Federal Bureau records,
to quantify the impact of overseas capital inflows on family savings in Pakistan and the time period taken for the variables from 1981 to 2010.

IV. DATA ANALYSIS

In this study we used SPSS tools to analyze the data obtained from State Bank of Pakistan website. For data obtained from State Bank of Pakistan website includes different variables foreign direct investment, Remittance and Foreign aids. SPSS used to analyze these variables to obtain the final decision either these variable effects on household savings.

A. Descriptive Statistics

In descriptive statistics each variables characteristics are describe which include different factors sample size, mean, minimum and maximum values of all dependent or independent variables and standard deviations.

| VARIABLES | N | MIN | MAX | MEAN |
|-----------|----|-----|-----|------|
| Household Savings | 30 | 2834 | 2512 | 8326 |
| Foreign Direct Investment (FDI) | 30 | 35 | 5410 | 1007 |
| Foreign Aids | 30 | 1045 | 4783 | 2369 |
| Remittances | 30 | 983 | 8905 | 2891 |

In the above table which describe the dependent and independent variable in which household savings is dependent variable and foreign direct investment, foreign aids and remittance include independent variables. Total sample size from the period of 1981 to 2010 is 30.

B. Pearson Correlation Coefficient

In Pearson coefficient test we find out the relationship between two variables. The values lie between 0 to 1. If the value is 0 means there is no relationship between the two comparable variables, but if the value is 1 which means that there is strong relationship or dependency of both variable to each other. Following table showing the correlation for the period (1981 to 2010), sample size (N) and significant value for all the variables.

| VARIABLES | N | MIN | MAX | MEAN |
|-----------|----|-----|-----|------|
| Household Savings | 30 | 2834 | 2512 | 8326 |
| Foreign Direct Investment (FDI) | 30 | 35 | 5410 | 1007 |
| Foreign Aids | 30 | 1045 | 4783 | 2369 |
| Remittances | 30 | 983 | 8905 | 2891 |

Above table shows that Household savings (HS) has strong correlation with foreign direct investment (FDI) and remittance (RT) which is about 86% and 78% respectively. On the other hand household savings have moderate relationship or dependency on foreign aids (FA) which is only 60%. This correlation proved that house holding savings strongly or significantly depends on foreign direct investment or remittance and there is little or insignificant impact on foreign aids.

C. Result Summary

Below table shows the results generated by Cochrane-Orcutt method. This table is showing p-value, F-value, t-value, adjusted r2 value and coefficient values.

| VARIABLES | N | MIN | MAX | MEAN |
|-----------|----|-----|-----|------|
| Household Savings | 30 | 2834 | 2512 | 8326 |
| Foreign Direct Investment (FDI) | 30 | 35 | 5410 | 1007 |
| Foreign Aids | 30 | 1045 | 4783 | 2369 |
| Remittances | 30 | 983 | 8905 | 2891 |

In this study research model the value of R2 is almost 76% which proves the sturdy relationship between dependent variables (household savings) and independent variables (FDI, RT and FA) and the p-value which is less than 0.05 (p<0.05) confirms that this model is significant and null hypothesis that foreign capital investment has no impact on household savings in Pakistan is rejected. Results show that the value of VIF is also less than 5 which confirm that there is no multicollinearity exist among variables. The p value of independent variables is significant including foreign direct investment (FDI) and Remittance (RT) and the value is 1.6056 and 1.4236 respectively but the p value of foreign aids is insignificant and the value is (-0.9114) it means has less impact on household savings.

Beta (β) values which show the relationship between different variables i.e. dependent and independent variables in the model study. If the value of beta coefficient is positive it means that independent variables have positive relation with dependent variable for example, increase in independent variable causes increasing effects on dependent variables or if the value of independent variable is going to decrease it also cause decrease in dependent variable which show coefficient value is negative. The values of coefficient beta and constant are used to construct the regression model, and the model is:

\[ HS = 4369.6 (Constant) + 1.6056 (FDI) - 0.9114 (FA) + 1.4524 (RT) \]

Overseas resources including foreign aids have insignificant impacts on the household saving as per model results which means that a unit increase in the Foreign aids will decrease in household saving by 0.9114. This decrease in household savings results in some serious consequences like boom in debt burden and decrease in family savings due to the fact the donor will start intervene within the monetary

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subjects of the recipient country. One more reason is that authorities start relaxes behavior in attracting private or community savings due to availability of foreign aids. Our findings are also consistent with previous findings of [8, 11, and 17]. Overseas direct investment and remittance are having positive and high quality significant effects on household savings which means that a unit growth in FDI and remittance will increase in household savings by 1.6057 and 1.4523 respectively in our study. We found that remittance has more significant impact on household savings means those who are receiving remittance are capable or greater savings and live a better life than those who are not receiving remittance however the ratio of savings are excessive than earning but those people who earn well off to save money are not in high number in Pakistan and our results was in consistent with [8]. Foreign direct investment has crowding effects on household savings, the cause behind this is that when a recipient country affords useful surrounding it encourages domestic funding and presents incentive to the overseas buyers to make investment more in the host country. [15] In researches regarding, financial boom and flourishing the impact of FDI is positive and good size however terrible and insignificant effects in researches regarding savings because of making overseas inflows easily available, it shows a relaxation in saving and an increase in consumption [13].

In this study we found that impact of foreign direct investment and remittance have direct impact on household savings and the motive in the back of the foreign capital inflows at combination degree have inverse relationship with savings fee.

V. CONCLUSION

This study was investigated the effects of overseas capital inflows in term of direct investment, remittance and foreign aids (FDI, RT and FA) on household saving of Pakistani people. Primary data was analyzed by applying statistical tools throughout 1981 to 2010. Regression analysis was used to analyze the connection between based and impartial variables. Results showed that FDI and remittance are having massive courting with household saving in Pakistan while foreign aids is having terrible or insignificant impact on household saving in Pakistan.

Finally, we concluded that a country’s earning level signifies a massive quantity of family saving and government of Pakistan can keep the family savings at a growing price by focus in the direction of foreign direct investment (FDI) and remittance (RT) on the other hand foreign aids (FA) causes increase in debt burden.

VI. RECOMMENDATIONS

1. The terrible and insignificant influence of foreign resources on family savings must be redirected by advancing in the financial and economical guidelines.
2. Government of Pakistan make policies and efforts to attract foreign investment in place of foreign aids dependency.
3. Authorities should have to motivate foreign resident to invest more because it has more significant impact on household saving than depends on foreign aids which has insignificant impact on household saving.

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