ABSTRACT

In this thesis Hall's Random Walk, Hypotheses is tested empirically for Pakistan by using three different models. Findings from all three models are strong enough to reject the random walk hypothesis. The fraction of rule of thumb consumers is above 90% in Pakistan. Planning horizons are quite short, less than one month. These findings provide a strong support for the view that rule of thumb behaviour plays a major role in determining consumption behaviour, in contradiction with random walk hypothesis. This thesis suggests that a model with rule of thumb consumer is best fitted for aggregate consumption data of Pakistan. Another finding is that real interest rate is insignificant in determining consumption behaviour. Vector error correction mechanism is found to be unsatisfactory for explaining consumption and income series, which could be due to specification error. By including unobserved component and wealth as an endogenous variable improved results can be obtained.