ABSTRACT

Monthly time series data have been collected from 1991 M_{12} to 2011 M_7 that was further interpolated into quarterly time series data starting from $1992Q_1$ to $2011Q_3$ to analyze the long term relationship between inflation, interest and unemployment rate of Pakistan. Johansen Cointegration test and Vector Error Correction Model (VECM) have been employed to find out the long run relationship between variables. The results of the study indicate that inflation, interest and unemployment rate are cointegrated. In addition, interest rate and unemployment rate, both are negatively related to the rate of inflation in the economy. But the rate of unemployment does not depend on inflation rate and interest rate.