

ABSTRACT

This thesis is an attempt to find the effects of threshold level of public debt on macroeconomic indicators like growth, inflation and unemployment in case of selected indebted economies. We have used two streams, one is in case of high indebted and other is for less indebted countries, to find linkages among these variables. We estimated six different models in this context, three models are estimated to capture the impact of debt on economic growth, inflation and unemployment for high indebted, and the other three model for less indebted countries along with other control variables like capital formation, money supply, government expenditures and population etc. We used panel data analysis with the sample period (1990-2022) and applied Cross sectional Autoregressive Distributed Lag Model (CSARDL) to find long run and short run elasticity's. Secondly, the Dynamic Panel Threshold Model (DPTM) is applied to find the threshold level of debt. The findings show that high our findings generally support the notion that an inverted U shape relationship exist among debt and growth for both high and less indebted economies. The impact of public debt on economic growth can vary depending on the level of debt, the structure of the economy, and other factors. When a government borrows money, it injects cash into the economy, which can increase demand and stimulate economic activity. Additionally, high levels of debt can reduce a government's flexibility to respond to economic crises or other unexpected events. Furthermore, the burden of servicing public debt can become a significant drain on a government's budget. In the same way, the effect of inflation is analysed in case of high and less indebted countries. The increase in debt burden cause the inflationary pressure in the economy we have found the cut off level in the long run that after threshold it may turn from inflation to disinflation or deflation. Findings show that there is an inverted U shape relation is found in long run. The amount of public debt, the composition of the economy, and the policies of the government are some of the variables that determine how public debt affects inflation. If the government prints money to pay down its debt or borrows from the central bank, public debt may cause inflation in the near term. This may result in a rise in the money supply, which would raise prices. The long-term effects of public debt on inflation are less evident. Some economists contend that if investors lose faith in a government's capacity to pay back its loans, excessive amounts of public debt may trigger inflation. Higher interest rates may result from this, raising borrowing costs and discouraging investment. As a result, slower economic development and productivity might lead to higher inflation. Some

economists contend that a government's fiscal and monetary policies determine how public debt affects inflation over the long term. If a government implements sound fiscal policies, such as reducing unnecessary spending and increasing revenue, it can maintain a sustainable level of debt and avoid inflationary pressures. Similarly, if a government implements sound monetary policies, such as controlling the money supply, it can help to maintain stable inflation levels. In summary, while public debt can lead to inflation in the short run, the impact of public debt on inflation in the long run depends on a variety of factors, including a government's fiscal and monetary policies, the structure of the economy, and the level of debt.

In the third stem two different models were estimated to capture the impact of debt on unemployment in case of highly and less indebted economies. The increase in debt reduces the unemployment its square term is found positive and significant and witnessed the U turn relationship as well as we have found the cut off level in the long run that after threshold level it may turn to increase unemployment. Findings shows that capital formation and trade have negative and significant impact on unemployment, foreign direct investment also reduces inflation in long run. For example, if a government invests in different projects, it can create jobs in the construction industry. However, if a government's debt burden becomes too large, high interest rates may result to discourage private investment and borrowing. This can lead to lower economic growth and, potentially, higher unemployment. In addition, economic crises or other unexpected events will lead to higher unemployment. In the long run the impact of debt on employment can be negative. If a government's debt burden becomes unsustainable, it can lead to higher interest rates and reduced investment. This can lead to lower economic growth and, potentially, higher unemployment. Overall, the impact of public debt on unemployment is complex, including the level of debt, the structure of the economy, and the policies implemented by the government to manage its debt. In general, a sustainable level of debt helps an economy to grow at faster rate and allows for flexibility in response to crises to promote employment.