

Investigating Impact of Urbanization on Urban Unemployment in Pakistan: An Empirical Analysis

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Abstract

In Pakistan, urbanization represents prosperity on one side while on the other hand urbanization enhances urban unemployment. This study explores the impact of urbanization along with foreign direct investment, consumer price index and trade openness on urban unemployment in Pakistan. Like other emerging nation Pakistan is also facing severe urban unemployment problem. In Pakistan, Urbanization, and urban unemployment both are increasing. As trade openness helps country to make optimum use of resources and foreign direct investment allow resources to transfer and exchange of skills and knowledge through which country can get access to new technologies and skills so trade openness and foreign direct investment have positive impact on urban employment chances. A time series secondary data from 1982 to 2014 have been collected. Augmented dickey fuller test is applied to test the stationarity of the series. ADF suggests applying Auto regressive distributive lag model. The results of long run estimation confirmed that Urban Population has positive and significant impact on urban unemployment. Further, Short run ECM model also confirmed the long run relationship true by incorporating standard diagnostics. Results indicate that trade openness, foreign direct investment and consumer price index all have negative and significant impact on urban unemployment. Government must adopt rules for attracting foreign investors to come and invest in our country in order to enhance foreign direct investment. Policy makers should apply such suitable strategies which move towards urban areas growth and eradicate urban unemployment such as government apply suitable strategies to control population growth rate and encourage labor intensive technology.

Key Words: Urbanization, ARDL, Urban Unemployment

1. Introduction

Merriam websiter claims that the process by which towns and cities are formed and become larger as more and more people begin living and working in central areas is called urbanization. Urbanization exists through the shift of inhabitants from countryside to cities as a result gradually increase in the number of residents living in cities occurs. Urbanization has two faces one is charming and other is alarming .Owing to insufficient resources, Urbanization generate various problems in societies like unemployment, poverty etc. but urban unemployment is also one of the main problem (Chand, 1980).

It is essential to create jobs opportunities for growing labor force to achieve desired economic goals. Employment chances are consider as the central key of income for households. (Habees & Rumman, 2012). New emerging occupation chances enhance the economic growth hence the danger of depression eventually decreased. The influences of unemployment on economies is dreadful and rigorous (Maqbool, 2013).

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Due to unemployment psychological problems amongst the societies are increasing and societies are facing the situation of frustration, fear and family disputes. To overcome the social problems, it's the duty of government to create vacancies and ensured the removal of social problems.

Urban unemployment takes the common and severe problem which is faced by all industrialized and unindustrialized states all over the world. Economic Survey of Pakistan (2014-15) explain that 'unemployment as annually measurement of that ratio of labor force which fail to get job'. The joblessness percentage of Pakistan as 6.0% in 2014. Supply factors are impacting unemployment in emerging countries (Berhanu, 2005; Okojie, 2003; Getnet, 2003). They explained that side of supply issues contain demographic aspects (such as rapid inhabitants growth & rural-urban migration), and education & training policies are effecting the unemployment in economies badly. Urban joblessness has excessive significance amongst the macroeconomic issues.

Urban prosperity and growth depend crucially on its ability to attract productive labor force, match them suitably to jobs, and improve their skills. Urbanization is most vital of all postwar demographic miracles and the one that promises to emerge even larger in the future is the fast development of cities in unindustrialized countries (Todaro, 1997).

Urban employment opportunities helps to attract people beyond socio-economic problems and advances improvement towards the Millennium Development Goals (MDGs), but, if not get opportunities well, can also consequences in mushrooming growth of slums, pollution, unemployment and crime, (GMR, 2013). It is the migration from a rural to an urban society and results an rise in the amount of residents in cities during a particular year (Grant, 2012).

Urbanization takes place because of regional economic development, especially development in industry or it may outcome of socio-economic complications of rural areas. The proportion of the residents in urban cities in emerging states grows from 27% to 40% (Chen, 2004).

In developing country urban areas characterized by urbanization not always linked to economic progress, but driven by rapid population growth, internal conflicts, unemployment and environmental problem. There is huge unpredictability across and within city ranges, with much urbanization being driven by smaller centers. According to World Bank enterprise surveys report African firms are considered with weak infrastructure and an unskilled workforce the biggest obstacles to expansion and increased demand for labor (Melamed, et al., 2011).

Cities residents pose great task for government for the establishment of new jobs. The increase in urban unemployment is raising several troubling questions for economies that, if unindustrialized labors left jobs then how can they get job in other areas of economy.

The universe is moving toward the phase of quick urbanization since last six years. Seventy percent of people worldwide lived in countryside settlements and below to thirty percent in urban areas expected in fifties. In 2014, 54% of the world's inhabitants is urban. The urban inhabitants are predictable to rise continuously, by 2050 (The world urbanization prospects, 2014).

The UN (2013) projects in their report that in 2025, more than 4 billion, of urban people of the world, will be located in less developed regions. This number represents an overall increase of 2.61 billion new urbanites in Asia, Latin America and Africa since 1990.

Like several other emerging countries, Pakistan is experiencing a swift rate of Urbanization have negative relationship with rural labor employment because at initial stage it is motivated by some forces and labor shift from agriculture sector to industrial but at the next stage it degraded the labor surplus condition that made labor force unemployed and also increase the cities joblessness rate (Shaoquan, 2004).

The role of urbanization is important for job creation, economic development and poverty reduction. South Asian cities account for three-fourths of the state's GDP. The share of workers

has improve in the progressive effectiveness in urban industrial and services areas. However, 8 out of every 10 people are engaged in the informal sector. Cities also provide chances to develop country sides by providing job opportunity and markets for rural residents.

In South Asia, the labor force will increase by 12 to 14 million per annum during the coming two decades (between 2010 and 2030), accounting for about 40 per cent of the total new participants to the global working age population.

Cities can provide chances to increase economic development and create employment opportunities .During 2002-06 and 2007-2011 in South Asia , Employment improved by merely 2.3 %and 1.1 % compared to about 3.6 %and 3.7% rise in labor productivity Overall, labor productivity growth have been greater in 2000s compared to 1990s, while employment growth has been insufficient

Pakistan is the home of huge urban population about 130 million, as included in the list of the largest cities center nation in the world and this huge rise in population will become significant challenge authorities of urban too (Ghani, 2012). Urban employment hope for Pakistani's are encouraging and also troubling as urban joblessness rate are increasing day by day.

2. Literature Review

Urbanization and urban unemployment is most important issue in all developed and developing countries. This paper determined the impact of urbanization on urban unemployment for this purpose i.e. urban population growth rate, inflation rate, FDI, trade openness ,urban unemployment in context of Pakistan economy are studied. .For explaining the study broad literature examination on this issue are as.

There is no prescribed study which describe urban unemployment except Harris –Todaro model as Lewis two sector model of development Lewis model does not explain the unemployment and underemployment phenomenon created by migration. While in 1969, Michael Todaro formulated rural-to-urban migration model that employment creation expected opportunities move to rise urban unemployment. Later, Todaro and John Harris, developed a model as Harris Todaro model, investigate that grants for cities labor services will rise actual pay and move toward reduced cities joblessness rates.

Many theorists have followed in Ravenstein's footsteps, and the dominant theories in contemporary scholarship are more or less variations of his conclusions. Everett Lee (1966) reformulated Ravenstein's theory to give more emphasis to internal (or push) factors.

Lee also outlined the impact that intervening obstacles have on the migration process. He argued that variables such as distance, physical and political barriers, and having dependents can impede or even prevent migration. Lee pointed out that the migration process is selective because differentials such as age, gender, and social class affect how persons respond to push-pull factors, and these conditions also shape their ability to overcome intervening obstacles. Furthermore, personal factors such as a person's education, knowledge of a potential receiver population, family ties, and the like can facilitate or retard migration.

Several theories have been developed to treat international patterns of migration on their own terms, but these too are variants of push-pull theory. First, neoclassical economic theory (Sjaastad, 1962 and Todaro, 1969) suggests that international migration is related to the global supply and demand for labor. Nations with scarce labor supply and high demand will have high wages that pull immigrants in from nations with a surplus of labor. Second, segmented labor-market theory (Piore, 1979) argues that First World economies are structured so as to *require* a certain level of immigration. This theory suggests that developed economies are dualistic: they have a primary market of secure, well-remunerated work and a secondary market of low-wage work. Segmented labor-market theory argues that immigrants are recruited to fill these jobs that are necessary for the overall economy to function but are avoided by the native-born population because of the poor working conditions associated with

the secondary labor market. Third, world-systems theory (Sassen, 1988) argues that international migration is a by-product of global capitalism. Contemporary patterns of international migration tend to be from the periphery (poor nations) to the core (rich nations) because factors associated with industrial development in the First World generated structural economic problems, and thus push factors, in the Third World.

However, Arif (2005) collect the evidence in the Census with the 2001 Pakistan Socio-Economic Survey and is capable to display that roughly 40% of the migrants are countryside to urban migrants and mainstream of the males (60%) mention economic reasons for migrating, whereas for females it is usually family issues like marriage. Rural-city migrants were relatively younger and more educated than rural -countryside migrants

Although, Thomas Malthus stated that the world's assets would be not capable to keep jump with population's growth. Food formation would rise more slowly than population, and numerous would drop out in the struggle for food.

One of the reason of urban unemployment is inflation as the association between inflation and unemployment is very common such as Philips curve indicates tradeoff between inflation and unemployment. The Phillips curve explain an inverse relationship between rates of unemployment and inflation that effect within an economy. Stated simply, increasing levels of employment in an economy will associate with higher rates of inflation.

Although, Wright & Milner (1998) examined manual labor market reactions to trade openness in Mauritius. They represent that unindustrialized occupation raised meaningfully in the duration following the 1983 trade openness. However services rises in the lengthy duration exceeded those that happened instantaneously after the trade openness, the short run influences on occupation were significant and positive. Rama (1994), discover a adverse consequence of trade openness on employment in his inspection of trade policy improvement in Uruguay in the late 1970s and early 1980s.

Additional suggestion of unindustrialized states is given by Revenga & Harrison (1995) and Tarr & Matusz (1999). They discover suggestions of rises in industrial career following trade openness periods in Peru, Costa Rica, and Uruguay. In its place, in a quantity of permanent economies (Poland, Czechoslovakia, and Romania), services decrease throughout the change period. However, those nations were also experiencing significant other improvements that went fine beyond trade openness.

Pallis (2006) stated that the association amongst inflation and unemployment in new European Union member states. This paper explore the claim of common strategies across economic situation may be questionable owing to the various consequences of these strategies on inflation and joblessness

3. Methodology

To virtually explore the impact of urbanization on urban unemployment we include urban unemployment as dependent variable while urban population, CPI, FDI and trade openness as independent variables. As Urbanization alone cannot be the independent variable that determine urban unemployment. This is because, other variables also effects the Urban Unemployment. Data have been collected from IMF and World Bank.

Later on regression model is developed for selected variables which have significant correlation. Augmented dickey fuller test of unit root is applied to check the stationarity of the series. ADF suggest to apply auto regressive distributive lag model.

Different studies have suggested different factors that determine unemployment theoretically such as Philips indicates tradeoff between inflation and unemployment, Harris –Todarro model represent urban unemployment etc

Based on empirical literature and theoretical work, as develop a model to investigate the impact of urbanization on urban unemployment.

Now the functional form of model is as

$$UR_t = f(UP_t, TO_t, CPI_t, FDI_t)$$

The specification of linear regression model is

$$UR_t = \beta_0 + \beta_1 UP_t + \beta_2 TO_t + \beta_3 CPI_t + \beta_4 FDI_t + \varepsilon_t$$

Whereas,

UR_t = Urban unemployment as a share of urban labor force at time t

UP_t = Urban Population { % of total } at time t

FDI_t = Foreign direct investment at time t

CPI_t = Consumer price index as proxy for inflation at time t

TO_t = Trade openness at time t

t = 1, 2, 3, 33 (time period 1982 to 2014)

β₀ = intercept

β₁ and β₂, β₃, β₄, β₅ = coefficient of the parameters estimate

ε_t = Error terms

Data Sources

As study is based on secondary data and for empirical analysis time series data of urban unemployment, urbanization, foreign direct investment, trade openness and consumer price index are collected and selected the duration of 1982 to 2014. Data collection sources are Pakistan Economic survey and World bank.

Description of Variables

a) Urban unemployment

Urban unemployment is that unemployment which exists in urban areas. This type of unemployment is hurting for economy not only at personal level but also at social level. In this paper, this variable is represented by UR. It is measured by using the formula as

$$UR = (UP/ULF) \times 100$$

As, data is collected from 1982 to 2014 in this paper, Our finding shows that during the given selected period maximum value of urban unemployment is 9.92% in 2000 While minimum value is 4.51% in 1986. Urban unemployment data is collected from Pakistan Economic survey.

b) Consumer Price Index

Consumer price index reveals changes in the cost to the average consumer of obtaining a basket of goods and services that may be stable or changed at specified interval for instance yearly. Consumer price index is represented by CPI. The Laspeyres formula is used. This compares the price of old basket of goods for the old or new prices as

$$P_L = \sum (P_n . q_o) / \sum (P_o . q_o)$$

Our selected data shows that during the given selected period maximum value of consumer price index is 141.7% in 2014 while minimum value is 10.8% in 1982. Consumer price index data is collected from World development indicator.

c) Urban population (% of total)

Percentage of total population existing in cities. It is calculated using World Bank Population estimates and urban ratios from the United Nations World Urbanization Prospects. Urban population figures are collected from World development indicator. Urban population data from 1982 to 2014 shows minimum value is 28 % in 1982 and maximum value is 38 % during 2013 and 2014.

d) Foreign direct investment

Foreign direct investment are the net inflows of investment to acquire a lasting management interest in an enterprise operating in an economy other than that of investor. It is the sum of equity capital, reinvestment of earnings, other long term investment and short term investment

as shown in the balance of payments. The series shows net inflows in the reporting budget from external investors and is divided by GDP.

It is the summation of impartiality capital, reinvestment of earning, other long and short term capital as shown in the equilibrium of payment. The sequences show net inflows in reporting budget from foreign investors and is shared by GDP. However, data of foreign direct investment is collected from world development indicators. As, during selected period of 1982 to 2014 foreign direct investment shows maximum value 3.7% in 2007 and minimum value 0.1% in 1983.

e) Trade openness

Trade openness is the percentage of total import plus export to GDP. Trade openness measured by using formula as

$$TO = [(Import + Export) / GDP] \times 100$$

Trade openness data from 1982 to 2014 reflects that trade openness maximum value 38.9% in 1990 while minimum value 28.1% in 2000. Trade openness selected data is collected from Pakistan Economic survey.

4. Results and Discussion

The study used time series data from Pakistan over the period of 1982 to 2014 having 33 observations from six indicators. The analysis includes means values, minimum values, maximum values, median, standard deviation, sum and sum of squares. Main variable of the interest is urban unemployment (UEMP) and explanatory variables are urban proportion of Population (UP), Trade openness (TO), foreign direct investment (FDI) and Consumer price index (CPI). Descriptive statistics are given in table 1.

Table 1 Descriptive statistics					
	UEMP	UP	TO	FDI	CPI
Mean	6.99	32.60	34.17	0.94	45.78
Median	6.90	32.00	34.24	0.64	37.30
Maximum	9.92	38.00	38.91	3.67	141.70
Minimum	4.51	28.00	28.13	0.10	9.10
Std. Dev.	1.84	2.99	2.53	0.85	37.49
Skewness	0.22	0.19	-0.12	1.97	1.19
Kurtosis	1.79	1.99	2.69	6.26	3.40
Sum	244.49	1141.00	1195.92	32.80	1602.30
Sum Sq. Dev.	114.81	304.40	217.88	24.54	47789.60
Observations	33	33	33	33	33

Table 1 shows that average UEMP during the period was observed at 6.99% and minimum UEMP was 4.51% and maximum was recorded at 9.92. Urban population (UP) was averaged to 32.60% in total population and maximum was 38 and minimum value was observed at 28% in total population so it indicates that there is increase in overall urban population proportion. Trade as percentage of GDP (TO) in Pakistan was averaged at 34.17% and minimum was 28.13 and maximum trade was observed at 38.91%. Average FDI was 0.94 as net inflow as percentage of GDP and maximum was 3.67 and minimum was observed at 0.10.

Unit Root Test Results

There are a number of tests have been developed to test Stationarity in time series analysis, however in this study we researcher discusses only Augmented Dickey-Fuller test of unit root which is widely used in the literature. The main intention of the unit root is to determine whether the series is stationary with $I(1)$ with stochastic trend or $I(0)$ that is stationary series

with deterministic trend. So to examine the Stationarity of the data, Dickey & Fuller (1979) is used on the data.

Table 2 Results of Unit root test for stationarity

Augmented Dickey-Fuller test results					
	At level		At difference		
Variables	With intercept	Intercept and trend	With intercept	Intercept and trend	Decision
UEMP	-1.26[0] (0.6324)	-1.51[0] (0.8070)	-4.13[0] (0.0029)***	-4.06[0] (0.0159)**	I(1)
UP	2.07[0][4] (0.9998)	0.45[4] (0.9986)	-1.31[5] (0.6103)	-4.56[3] (0.0054)***	I(1)
CPI	-2.87[0] (0.0585)*	-2.94[0] (0.1609)	-----	-----	I(0)
TO	-2.87[0] (0.0593)*	-3.11[0] (0.1483)	-----	-----	I(0)
FDI	-2.71[1] (0.0830)*	-5.33[6] (0.0009)***	-----	-----	I(0)

*, **, *** indicates the level of significance at 10%, 5% and 1% respectively.

Results of ADF test in table 2 show that dependent variable which is urban unemployment (UEMP) is stationary at I(1) and dependent variables are combination of I(0) and I(1), literature suggested that for this situation Autoregressive Distributive Lag (ARDL) approach is appropriate econometric technique for empirical analysis.

ARDL Approach for Co-Integration

In the first step of ARDL approach of co-integration there is need to check the optimal lag selection for the further analysis. The study applied unrestricted VAR model and followed AIC to select lags in ARDL model. The results for optimal lag selection criterion under VAR model are given in table 3.

Table 3 VAR lag order selection criteria

Endogenous variables: UR UP TO FDI CPI						
Lag	LogL	LR	FPE	AIC	SC	HQ
0	-346.1376	NA	2337.457	21.94610	22.17512	22.02202
1	-163.9468	296.0601	0.129346	12.12167	13.49580*	12.57716
2	-133.1561	40.41276	0.101902	11.75976	14.27899	12.59481
3	-95.05786	38.09825*	0.063596*	10.94112*	14.60546	12.15574*

* indicates lag order selected by the criterion

The results of VAR model suggested that lag selection criterion of AIC indicated three lags as optimal lags to incorporate in the ARDL model. In the second step in ARDL the study applied the following model for bond testing to check co-integration among the variables.

$$\begin{aligned}
 DUEMP_t = & \beta_1 + \beta_{2i} \sum_{i=1}^3 DUEMP_{t-i} + \beta_{3i} \sum_{i=0}^3 DUP_{t-i} + \beta_{4i} \sum_{i=0}^3 DFDI_{t-i} + \beta_{5i} \sum_{i=0}^3 CPI_{t-i} \\
 & + \beta_{6i} \sum_{i=0}^3 DTO_{t-1} + \beta_7 UEMP_{t-1} + \beta_8 UP_{t-1} + \beta_9 FDI_{t-1} + \beta_{10} CPI_{t-1} \\
 & + \beta_{11} TO_{t-1} \varepsilon_t \dots \dots (5.1)
 \end{aligned}$$

In model 5.1 there are two kinds of coefficients in the equation which includes short run as well long run coefficients. For testing the existence of co-integration the study applied Wald test on following hypothesis.

$$H_0: \beta_7 = \beta_8 = \beta_9 = \beta_{10} = \beta_{11} = 0$$

(No co-integration exists between variables)

$$H_1: \beta_7 \neq \beta_8 \neq \beta_9 \neq \beta_{10} \neq \beta_{11} \neq 0$$

(There is Co-integration)

The results of Wald test determined that H_0 is rejected in favor of existence of co-integration among the variables. F-statistics is 5.50 and probability value is 0.0039 which is significant at 1% level of significance (Table A.1 in Annexes). The F-statistics is compared with F-critical from Pesaran et al. (2001). Bond test results are given in table 4.

Table 4 Bond test results		
Test Statistics	Value	K
F-statistics	5.50	5
Critical Bond values		
Significance	I0 Bond	I1 Bond
10%	1.99	2.94
50%	2.77	3.28
2.5%	2.55	3.61
1%	2.88	3.99

Table 5.4 indicates that the value of F-statistics is greater than 1% level upper bond value which indicated that there is co-integration exists among the variables used in the model.

Long Run and Short Run Results

The results of the long run estimates indicates that Urbanization (UP) is positively and significantly contributing in urban unemployment rate (UEMP) and other variables which are trade openness (TO), foreign direct investment (FDI) and consumer price index (CPI) all have negative and significant impact on UEMP. The long run results are given in table 5.

Figure 6 and significant impact on GDP. The long run results are given in table 5.

Table 5 Long run results				
Dependent Variable: UR				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-20.7195**	8.5744	-2.4164	0.0224
UP	1.2371***	0.2644	4.6777	0.0001
TO	-0.2674***	0.0828	-3.2264	0.0032
CPI	-0.0646***	0.0184	-3.5114	0.0015
FDI	-0.6698**	0.3074	-2.1786	0.0379
Diagnostics				
R-squared	0.7002	F-statistic		16.350
Adjusted R-squared	0.6574	Prob(F-statistic)		0.0000
*, **, *** indicates the level of significance at 10%, 5% and 1% respectively.				

Long run results indicate that UB is highly significant and has positive sign with 1% level of significant with t-statistics of 4.68. on average one percentage point increase in UP will lead to 1.23 percentage point increase in UEMP. One percentage point increase in TO will lead to 0.2674 percentage point decrease in UEMP. Similarly one percentage point increase in FDI will lead to 0.6698 percentage point decrease in UEMP. The results of the long run suggested that UP has positive and significant effect on UEMP and other variables used in the model have

negative impact on UEMP. Long run results are confirmed in the next step by using unrestricted error correction mechanism (UECM).

In the next step error term named ECM is generated from long run regression and a unit root test is applied on it, the results of ADF test shows that ECM is stationary at level and this is regressed in with first lag in short run estimates. Short run results are given in table 6.

Table 6 Short run ECM results				
Dependent Variable: DUR				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.1973	0.1684	1.1715	0.2545
DUR(-1)	0.2687*	0.1474	1.8225	0.0827
DUR(-2)	0.6626***	0.1784	3.7138	0.0013
DUP	-0.1226	0.2486	-0.4935	0.6268
DUP(-1)	-0.2925	0.2218	-1.3188	0.2014
DTO	-0.0139	0.0484	-0.2878	0.7763
DFDI	-0.9715***	0.2598	-3.7393	0.0012
DCPI	0.1160	0.0696	1.6651	0.1107
DCPI(-1)	-0.0267	0.0750	-0.3567	0.7248
DCPI(-2)	-0.1290*	0.0678	-1.9010	0.0711
ECM(-1)	-0.2895**	0.1047	-2.7642	0.0116
Diagnostics				
R-squared	0.703461	F-statistic		4.981707
Adjusted R-squared	0.562252	Prob(F-statistic)		0.000956
*, **, *** indicates the level of significance at 10%, 5% and 1% respectively.				

The results of short run ECM models shows that ECM(-1) is significant and negative in the regression which reconfirmed the relationship is true in the long run estimates. Coefficients of the repressors are showing some insignificant results in the short run, as urbanization is not a short term phenomena. People moving towards cities from villages with during long process of the time, we cannot say that with in a single year or two the urbanization is changed at high point. So the short run results may shows different results than in the long run. According to the Angle Granger approach while using ARDL process the researches only focus to the long run coefficients and their significance. In the short run only Error Correction Term is considered to validate the results. In our model the short run lagged ECM term is negative and significant which indicates that the long run results can be truly interpreted for policy making. The other coefficients of the repressors like FDI and CPI are significant and showing similar sign in the short run same as present in the long run analysis. On the side of model validity overall diagnostics of the models show that R-squared is 0.70 which indicates the explanatory power of independent variables, and F-statistics is 4.98 and F probability is 0.0009 which confirms the overall significance of the model and prove goodness and fitness of the model. For confirming the more specific diagnostic tests to check the short run model validity there are some diagnostic tests implied by the researcher which are present in the section.

Diagnostics Test on Short Run ECM

Diagnostics tests which are applied on the short run ECM model one are, Breusch-Godfrey Serial Correlation LM Test, Heteroskedasticity Test of Breusch-Pagan-Godfrey, Jarque-Bera Test of Normality, and Ramsey RESET Test. The results of the diagnostics tests are given in the following table 7

Table 7 Diagnostic tests for ECM model

Breusch-Godfrey Serial Correlation LM Test			
F-statistic	0.94	Prob.	0.4076
Obs*R-squared	2.88	Prob. Chi-Square	0.2364
Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	1.07	Prob.	0.4219
Obs*R-squared	10.83	Prob. Chi-Square	0.3703
Jarque-Bera Test of Normality			
Jarque-Bera	3.01	Prob.	0.2211
Ramsey RESET Test			
t-statistic	0.78	Prob.	0.4464
F-statistic	0.60	Prob.	0.4464

Table 7 indicates that short run ECM model hold no serial correlation as the value of LM f-statistics is 0.94 and probability value is 40.76. it also confirmed that there is no heteroskedasticity in the model as probability F-statistics is 0.4219 which is insignificant. There is no normality problem as Jargue-Bera test is insignificance. Similarly the misspecification test is also insignificant as Ramsey RESET f-statistics is 0.78 and probability value is 0.4464. These results confirmed the validity of the short run ECM model.

To check the stability of the results and parameters in the short run ECM model the study applied CUSUM and CUSUM squared tests of stability. The results are presented in the graphs which are given in figure 1

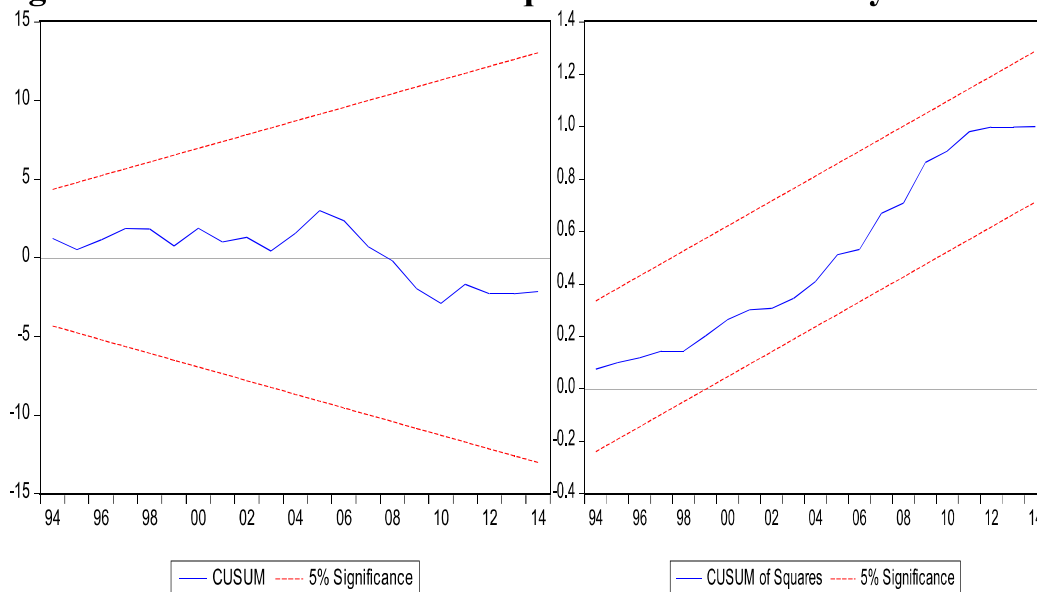
Figure 1 CUSUM and CUSUM squared test for stability of ECM model

Figure 1 determined that CUSUM and CUSUM squared lines are well within th boundries of 5% level of significant which indictes that the short run ECm model is stable and the results are cant be treaded as true.

The results of the present study are consitant with recently conducted studies on the same subject. Recent literture has argued that along with other macroeconomic determinants of urban unemployment, the increase in urbanization is also very important determinant of urban uneemployment rate. The empirical findings aslo supported the question tested in the study.

5. Conclusion & Recommendations

Urbanization have positive or negative influence in the prosperity of any nation. In Pakistan, urbanization are consider as one of the main cause of increasing urban unemployment. In this thesis, as examine the impact of urbanization on urban unemployment in Pakistan.

.However, the study is based on secondary data and for empirical analysis time series data of urban unemployment, urbanization, foreign direct investment, trade openness and consumer price index are collected and selected the duration of 1982 to 2014 ..

Augmented dickey fuller test of unit root is applied to check the stationarity of the series. Augmented dickey fuller suggest to apply auto regressive distributive lag model. The results of long run estimation confirmed that urbanization has positive and significant impact on urban unemployment.

Further, Short run ECM model also confirmed the long run relationship true by incorporating standard diagnostics. The empirical findings confirmed the hypothesis of the study that the increasing trend in urbanization has positive and significant impact on urban unemployment rate.

The overall analysis shows urbanization and urban unemployment is generally a blend of socio- economic factors. Urban Unemployment is the main issue of urbanization and remains hard to manage. Urbanization can be observed from various dimensions but the current study focus on the impact of urbanization on urban unemployment.

Urbanization fuel urban unemployment where as foreign direct investment has negative impact on urban unemployment as already discussed above. Our finding reveals that trade-off between urban unemployment and inflation and if volume of trade openness decreases then urban unemployment increases.

When inhabitants migrate from countryside's to city they may not find jobs soon .and if they fortunately get job there is the probability of lower wages than their expectation

In Pakistan cities, urbanization is growing fast as a result of the movement of persons from countryside to cities As, unemployed residents and inhabitants living in subhuman condition become burden for society

So, Government have to adopt such steps which move toward urban development and eradicate urban unemployment. Progress and improvement in trade openness as well as foreign direct investment is essential for the reduction of urban unemployment rate. It is recommended that policymakers should apply such policies through which decline in urban unemployment occur and through which urban population growth rate also can be controlled.

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