Table 5.4 shows the results of the Robust standard error which is the final estimation for our LSDV model. In panel data, Robust standard error is used to address the heteroscedasticity and the correlation across the entities. In our study, we used the Robust standard errors to reduce the variance in the independent variables across the time to detect heteroscedasticity. Table 5.5 shows the results of the Robust Standard error for the whole sample in our model for the emerging economies of the world. The table shows the main statistics of the analysis; however, the whole statistics can be seen in the appendix.

The coefficient value of the EXR shows that when EXR rises by a single unit it will surge the INF rate by 36.15 units in the emerging economies of the world, the probability (0.000) value shows that there is a positive and substantial consequence of the EXR on the INF rate in the emerging countries of the world throughout the analysis. Similarly, the coefficient value of the WCOP indicates that when the WCOP surges by a single unit it will raise the INF rate by 0.775 units, whereas the probability (0.000) shows that there is a positive and substantial effect of the WCOP on the INF rate in the world emerging countries. Furthermore, the coefficient of the IR demonstrated that when IR increases by one unit it will decrease the INF rate by 0.063 units, this happens due to an increase in the cost of borrowing which reduces consumer spending, however, the probability (0.543) value shows that there is a positive but irrelevant or weaker consequence of the IR on the INF rate in the emerging economies in our study.

The coefficient of the FDI indicates that when FDI rises from a single unit to another it will increase the INF rate by 8.621 units which is a greater value than the IR and WCOP, whereas the probability (0.305) value shows that there is an insignificant effect of the FDI over the INF rate throughout the study. Lastly, the value of the R square illustrates that the variation in the INF rate is 90% enlightened by the explanatory variables in our LSDV model and the remaining 10% is unexplained which can be from other variables that are outside of our model. Also, the R square illustrates the best fit of the model (LSDV) for the panel data estimation.

So far, we have discussed the empirical results of our LSDV model for the all-emerging economies in our sample, now we will discuss the results of the emerging economies of different regions which are Asia, Europe, Africa, and America. The results from Table 5.4 for different emerging economies from different regions of the world are as follows:

Column no 3 of Table 5.4 shows the empirical results of the emerging economies from Asia. The coefficient value of the EXR demonstrated that when EXR decreases by a single unit it will raise the INF rate by -4.086 units, due to expensive imports the prices of the imported products will be higher when the currency depreciates in the Asian emerging economies, (Ahmed, 2000). The probability of the EXR is 0.000 which indicates that EXR has a strong positive and substantial influence on the INF rate. Similarly, the coefficient value of the WCOP indicates that when WCOP rises by a single unit it will raise the INF rate by 0.225 units, and the value of the probability also shows that WCOP has a substantial impact on the INF rate in the Asian emerging economies, (Bonato, 2007).

Furthermore, the coefficient of the IR shows that when IR is increasing by a single unit it will decrease the INF rate by 0.130 units, and the value of probability (0.001) shows that the variable has a substantial impact on the INF rate. The coefficient of the FDI indicates that when FDI is increasing by one unit it will increase the INF by 10.880 units, whereas the probability value is 0.000 which shows that FDI has a positive and momentous consequence on the inflation rate in Asian emerging economies. The value of R square shows that the variation in INF is 40% explained by the EXR, WCOP, IR, and FDI in our regression model.

Column no 4 of Table 5.4 illustrates the results of the LSDV model for the emerging economies from the European region. The coefficient of the EXR shows that when EXR is decreasing by one unit there will be an upsurge in the INF rate by -0.504 units, and the probability value is 0.552 which is larger than 0.05 indicating that EXR has a negative and irrelevant influence on

the INF rate in the European emerging economies (Peersan et al.,2009). Similarly, the coefficient of the WCOP shows that when WCOP decreases by one unit it will decrease the inflation rate by 0.057 units, and the value of probability is 0.000 which shows that WCOP has a negative and substantial impact on the INF rate in the European emerging economies, Miller & (Ratti, 2009), (Narayan 2008).

The coefficient value of the IR shows that when IR decreases for a unit it will increase the INF rate by 0.217 units. The probability of the IR is 0.033 which is less than 0.05 and it shows that IR has a negative and substantial effect on the INF rate among the European emerging economies from 2000 to 2018. Furthermore, the coefficient value of the FDI shows that when there is an upsurge in the assets inflow (FDI) in the European emerging economies by one unit, it increases the inflation rate by 12.286 units which is higher than the other coefficient values. The value of probability (0.010) shows that FDI has a positive and momentous effect on the INF rate in the emerging economies in the European region, (Farrell et al.,200). The R square shows the inclusive appropriate of the model with the data and also it shows that 40% variations in the INF rate are explained by the EXR, WCOP, IR, and FDI, in the European emerging economies.

Column no 5 of Table 5.4 reveals the results of the LSDV model for the African emerging economies from the period 2000 to 2018. The coefficient value of the EXR indicates that when there is an increase in the EXR by a single unit it will raise the INF rate by 3.503 units. Whereas, the probability (0.001) value expressed that there is a positive and substantial influence of EXR on the INF rate in the African emerging economies, (Ayadi, 2005). The coefficient value of the WCOP shows that when the WCOP rises by one unit it will raise the INF rate by 0.010 units, and the probability (0.285) value shows that there is a positive and trivial outcome of the WCOP on the INF rate which is weaker effect than the EXR among the African emerging economies, (Nicholson, 2003).

The coefficient value of IR shows that when IR is decreasing through a single unit it will surge the INF rate by 0.525 units, whereas, the probability (0.000) value shows that there is a negative and substantial outcome of the IR on the INF rate among the African emerging countries, (Kpodar, 2006). However, the coefficient value of the FDI indicates that when FDI rises by one unit in the African emerging economies it will raise the INF rate by 2.213 units, and the probability (0.329) value shows that there is a weaker and insignificant effect of FDI on the INF rate in the African emerging economies, (Coady et al.,2005). The value of R square exposes the overall fit of our LSDV model for the panel data, it indicates that 50% variation in the INF rate is described by the explanatory variables in our LSDV model and the 50% is unexplained by the other variables that are outside of the model.

Column no 6 of Table 5.4 demonstrated the outcomes of the LSDV model for the American emerging economies. The coefficient value of the EXR shows that when there is an increase in the EXR of one unit there will be an increase of 8.994 units in the INF rate, similarly, the probability (0.000) value shows that there is a positive and substantial consequence of the EXR on the INF rate among the American emerging countries from the period of 2000 to 2018, (IMF working paper series,2017). The coefficient value of the WCOP shows that when oil prices decrease by one unit it will decrease the INF rate by 0.066 units. However, the probability (0.591) value shows that there is a negative and weaker or trivial effect of the WCOP on the INF rate among the American emerging economies, (De Gregorio et al.,2007).

Similarly, the coefficient value of the IR expressed that when IR decreases by one unit, INF increases by 0.214 units, and the probability (0.367) value shows that IR has a negative and weaker influence on the INF proportion among the emerging economies of the American region, (Kilian, 2009). The coefficient of the FDI illustrated that when FDI is reduced by a single unit it will decrease the INF rate by 11.436 units, and the probability (0.004) value shows that there is a negative and momentous outcome of the FDI on the INF rate in the American

emerging economies and so on, (Jorda, 2005). Lastly, the value of the R square shows that 70% variation in the INF rate is explained by the EXR, WCOP, IR, and FDI within our LSDV model for the panel data.

5.4 Discussion

In line with the concept of (PPP), our empirical findings demonstrated that there is a positive and significant association between the EXR as well as on inflation rate. According to the PPP, an appreciation in the EXR leads to a decrease in the inflation percentage, whereas a depreciation in the exchange rates primes to an upsurge in the INF rate. It can be observed from our empirical results that volatility in the EXR and the WCOP fluctuation are stimulating the inflation rate in emerging economies due to their floating EXR and the instability in the WCOP. Due to heavy reliance on imports emerging economies suffer more due to these variables' movements. Furthermore, the coefficient of the EXR in our LSDV model analysis also shows a larger influence on the inflation rate as the value is higher than the other variables that are included in our empirical model.

The empirical findings of our study demonstrated that exchange rates hurt the inflation rate in Asian emerging economies as the coefficient value has a negative sign along with a higher level of significance. The outcomes illustrated that domestic currency fluctuates further due to complex WCOP as the emerging economies in Asia rely more on imported crude oil which leads to higher consumer prices. Whereas the IR and FDI have a weaker effect on the emerging economies in Asia, which can be observed from their level of significance. Similarly, the EXR has also a negative consequence on the INF rate in the European emerging economies which indicates that domestic currency fluctuates more due to higher imported products such as crude oil as it plays a major role in transportation and other fuel-related products. Both the EXR and the WCOP have a stronger impact on inflation in the European emerging economies, (Choi et

al., 2018) than the Asian emerging economies which can be perceived from our empirical outcomes in Table 5.2. Furthermore, the EXR in both American and African emerging economies has a positive and noteworthy effect on the INF, similarly, crude oil prices are also affecting the inflation rate in these economies but have a weaker effect as compared to EXR.

So far from our discussion and the empirical results of the study, it can be observed how significant the EXR and the WCOP are affecting the major economies of the world. The study has provided many facts and figures that are causing the economy's downfall. Previous studies have not focused on the cross-region comparison between the EXR and WCOP impact on the inflation rate. Previous Literature has only focused either on the industrialized economies or cross-comparison between the developed and developing economies or particularly on one specific region, however, this study has provided the real impact of the major economic variables that are affecting the major emerging economies from different regions of the globe.

According to Chou & Tseng (2011), there is a long-term association between the INF rate and WCOP. Our study has only enfolded the long-term causal effect of global oil prices but they didn’t specify why the crude oil prices have fluctuations in the short term, also they failed to provide the impact of the WCOP and the CPI on the monetary progress. Similarly, according to Blanchard et al. (2007), due to an increase in petroleum prices industries are reducing their investment and profit as the oil prices have unfavorable movements which are causing an increase in energy prices. Cost-push inflation is decreasing the consumer's disposable income due to increased energy bills that consumers have to pay from their income. Crude oil prices are creating spikes in the exchange rates as well in emerging economies, according to Muntazir et al. (2016), crude oil prices are affecting the gross national merchandise of the economies as there is an allocation of the profits from exporting states to importing countries through the international trade which are determining the exchange rates between the countries.

Furthermore, the theory of International Finance also best explains the affiliation between the EXR and WCOP as it states that exchange rates depreciate when crude oil prices increase.

According to Zhang et al. (2008), the acquiring influence of the oil-importing nations decreases with the increase of the USD as global oil is traded in the USD which decreases the power of the domestic currencies of the oil-purchasing economies. A lower EXR of the oil-purchasing countries faces the challenges of the expensive imports as the domestic currency is buying the lower imports which creates the higher consumer prices inside the economy. According to Bleaney (2007), Fluctuations in the real exchange rates create a negative impact on the investment and output of the economies, the study analyzed the data for 41 developing countries and examined that there remains a strong and significant connection amongst the real EXR and the CPI level.

Werlang et al. (2000), analyzed the data for 71 economies and stated that devaluation creates inflation in emerging economies. Calvo et al. (2000) found that demand-pull inflation is caused by the negative output in emerging markets. The absence of hedging instruments, liquidity markets, and capital flexibility exaggerates the exchange rate pass-through effect in emerging economies. Kilian (2009) found that a deficit in the balance of payment is caused by the exchange rates due to higher import costs which is creating a trade deficit in emerging economies. Due to the supply and demand shocks from the EXR and WCOP emerging economies are facing more challenges to make better monetary policies to gain trade surplus as these emerging economies are more dependent on exports.

CHAPTER VI
CONCLUSION AND RECOMMENDATION

6.1 Conclusion

Our empirical study aims to examine the effect of EXR and WCOP on inflation (evidence from world emerging economies). The study has been conducted to check the consequence of the EXR variations and the explosiveness in the WCOP in the major emerging economies from different regions of the world. Our study has used the panel data for the 44 emerging economies from the different regions (America, Africa, Europe, and Asia), from 2000 to 2018. We used the annual data for the assessment, whereas, the statistics were poised from the World Bank, IMF, and OPEC/OECD for the variables that are Inflation, Exchange rates, World Crude Oil prices, Interest Rates, and Foreign Direct Investment.

To estimate the panel data and to check the individual effect of the variables the study has used the Least Square Dummy Variable model (LSDV). To get the unbiased standard error we applied the Robust Standard Error, Multicollinearity, autocorrelation, and heteroscedasticity. Our findings show that exchange rates have highly significant effects on the inflation rate in emerging economies, as the coefficient value has a positive sign and the number is larger than other independent variables. Whenever exchange rates are increasing (the USD) emerging economies are facing higher inflation due to expensive imports, because the national money purchases less of the external goods as well as services.

Our empirical results also show that world crude oil prices have a substantial consequence over the INF rate, as emerging economies depend more on imports, and because the crude oil exporting economies export the crude oil in dollars it becomes more expensive for the emerging economies. Emerging Economies are depressing their economic growth due to crude oil