

This study analyzes the impact of urbanization on economic growth of Pakistan from 1975 to 2010. We develop five models in order to examine the impact of urbanization on economic growth. We formulate a model in which impact of urbanization on overall economic growth. Real per capita income growth (RPYG), urbanization (UR), Government expenditure (G), capital stock (KS) and inflation (INF) are the explanatory variables.

This study utilizes co-integration theory and error correcting model to make an empirical research on the relation between urbanization and GDP in Pakistan. Johansen Co-integration Test is used as econometric technique in order to estimate the model.

The result of the study shows that urbanization affects economic growth positively and significantly, the result shows a long-term balance relationship between urbanization and economic growth. Furthermore, we check the impact of urbanization on economic growth of different sectors of the economy.

The results show that urbanization and GDP of agriculture sector are negatively and significantly related to each other. However there is strong positive relationship between urbanization and GDP of industrial sector, manufacture and services sectors. Overall the results indicate that urbanization is an important component of economic growth.