

Income inequality is often the price developing countries have to pay in taking the strides to catch up with the developed world. Growth, however, does not necessarily skew towards income inequality; one important factor in tilting towards this pattern is corruption. In case of Pakistan, economy is characterized by rampant income inequality, worsened in no mean measure by poor governance - and corruption stands out as the key cause as well as effect of this process leading to a vicious cycle.

Apropos to the above, this study was designed to examine interplay of corruption and income inequality with the objective of investigating the underlying relationship between corruption and income inequality using Time series data for Pakistan ranging from 1984 to 2011.

Augmented Dickey-Fuller (ADF) test has been applied to examine the unit roots of the variables, while Ordinary Least square (OLS) has also been applied to estimate initial coefficients for the application of ARDL bound testing approach. Further, Hendry's general to specific methodology is applied to estimate short run as well as long run coefficients of the model. The results show that corruption as measured by ICRG Corruption index has a positive and statistically significant impact on income inequality. Almost 2.2-point increase in income inequality by a 1-point change in corruption is phenomenal. While the control variables also impact on income inequality, the effect on dependent variable is well borne out by this data. The study concludes that corruption and GINI have significant long run relationship. While short run dynamics of the study also conclude that corruption have serious implications for income inequality. Overall model is a good fit as indicated by F-statistic. Finally some recommendations were made to eliminate/ decrease income disparity gap by controlling the ever- burgeoning corruption in the country as well as correcting the other controlling variables impacting on the income inequality.