

## **Analyzing the input output relationship of small and medium enterprises in Pakistan: an econometric approach**

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### **Key Words**

SMEs, extended Cobb Douglas production function, productivity, hetroscedasticity

### **Abstract**

*The establishment and promotion of the SMEs is considered to be the solution to many of the problems of the developing economies. This SME panacea compels the researchers to observe how this sector contributes in the economy of Pakistan? The core objective of the present paper remains to analyze the Input output relationship in this sector. So the study contains the productivity analysis of the small and medium scale manufacturing sector of Pakistan. This will unleash the role of the various inputs in production here. Extended Cobb Douglas Production Function has been utilized on the secondary, cross section data of the 3-digit forty eight SMEs of Pakistan for the year 2005-2006. Different variables like labor male and female, local and imported material, sales tax, excise duty, advertisement and capital are selected to analyze their effects on output of SMEs. Most of the variables are significant having expected relationship with output, however female labor both production and non-production have shown negative relationship with output. Hetroscedasticity is checked by White test, concluding no evidence found for its presence in the data. The policy recommendations are that government should play a vital role in hand holding and development of SMEs in Pakistan so that productivity of factors of production can be increased. Especially the measures should be taken to increase the productivity of women who make 52% of Pakistan's population.*