

The Impact of Government Expenditure on Economic Growth: A Study of Asian Countries

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Abstract : Main purpose of this study is to identifying the impact of government expenditure on economic growth in Asian Countries. Consequently, First, objective is to analyze whether government expenditure causes economic growth in Asian countries vice versa and then scrutinizing long-run equilibrium relationship exists between them. The study completely based on secondary data. The methodology being quantitative that includes econometrical techniques of cointegration, panel fixed effects model and granger causality in the context of panel data of Asian countries; Singapore, Malaysia, Thailand, South Korea, Japan, China, Sri Lanka, India and Bhutan with 44 observations in each country, totaling to 396 observations from 1970 to 2013. The model used is the random effects panel OLS model. As with the above methodology, the study found the fascinating outcome. At first, empirical findings exhibit a momentous positive impact of government expenditure on Gross Domestic Production in Asian region. Secondly, government expenditure and economic growth indicate a long-run relationship in Asian countries. In conclusion, there is a unidirectional causality from economic growth to government expenditure and government expenditure to economic growth in Asian countries. Hence the study is validated that it is in line with the Keynesian theory and Wagner's law as well. Consequently, it can be concluded that role of government would play a vital role in economic growth of Asian Countries. However; if government expenditure did not figure out with the economy's needs it might be considerably inspiration the economy in a negative way so that society bears the costs.

Keywords : Asian countries, government expenditure, Keynesian theory, Wagner's theory, random effects panel ols model

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