

## GOVERNMENT SPENDING AND ECONOMIC GROWTH: A CAUSALITY ANALYSIS

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### ABSTRACT

This study is an attempt to examine the long run and short run causality relationship from defense expenditure (DE), agriculture expenditure (AE), general economic services (GESE) and labour and employment (LEE) to gross domestic product (GDP) in reference to India from 1991 to 2014. Annual data has been taken to test the relationship between selected variables by using ECM model. The study reveals that all the selected variables are integrated at I(1). The result of ECM model shows only a short run causality relationship (DE, LEE, GESE and AE to GDP) but not in long run. This study is limited to data availability and DE, LEE, GESE and AE as the determinants of GDP. Therefore, such study which includes more numbers of indicators would be appropriated to replicate the results of this study.

In order to improve GDP, it is very necessary to improve the working process and effective allocation and utilization of resources with reduction in corruption that will create bright image of India in world which will influence foreign investment and develop standard of living.

**KEY WORDS:** Agriculture Expenditure (AE), Defense Expenditure (DE), ECM, General Economic Services (GESE), Gross Domestic Product (GDP) and Labour And Employment (LEE).

**JEL Classification:** C32, E12, H54

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