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THE TODA–YAMAMOTO APPROACH TO GRANGER NON CAUSALITY TEST: THE EXPERIENCE FROM INDIA (1975 to 2014)

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ABSTRACT

The objective of this paper is to investigate the nature and direction of causal relationship between government expenditure and economic growth in India in contexts of Wagner's law. The hypothesis adopted is to test that the government expenditure is endogenous, an outcome of economic growth. The time series data used in the present study covers the period from 1975-76 to 2013-14. From the Toda and Yamamoto non-causality test, no evidence of causality is detected between GDP and GER. No-causality between public expenditure and GDP is referred to as 'neutrality hypothesis'. It implies that public expenditure is not correlated with GDP, which means that neither contraction nor expansionary policies in relation to public expenditure have any effect on economic growth. It nullifies the applicability of both Wagner's law and the Keynesian law in India.

KEYWORDS: economic growth; government expenditure; Wagner's law; causality; India