

Determinant factors of economic growth in Malaysia: Multivariate cointegration and causality analysis

Abstract

This paper investigates the factors that stimulate and maintain economic growth. The determinant factors studied are consumption expenditure, government expenditure, export, exchange rate, and foreign direct investment in Malaysia from the year 1970 to 2007. This study uses cointegration analysis and the causality approach by Johansen and ECM to analyze the relationship between economic growth and the determinant factors. The results of this study show that there exists long-run cointegration and multiple short-run causal relationships between economic growth and the determinant factors. Overall, findings show that all the determinant factors (combined determinant factors) cause economic growth in the short-run. However, individual tests indicate that only consumption expenditure and export cause economic growth while this is not so for the government expenditure, exchange rate and foreign direct investment. The study concludes that consumption expenditure and export play important roles as determinant factors to economic growth, and government expenditure, exchange rate and foreign direct investment may have a role as a catalyst and complement determinant factors to economic growth in Malaysia. © EuroJournals, Inc. 2010.