

# Government expenditure and national income



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Government expenditure and national income is the major and main important in economics growth. These are often used to know the fluctuation in the economy growth based on the government expenditure and also national income. However, some researchers found that the relationship of government expenditure and national income are inconsistent. (Chaido Dritsaki<sup>1</sup>, Melina Dritsaki<sup>2</sup>). Some research has been done towards the relationship of government expenditure and national income.

Government expenditure can be classified as the expenditure was made based on the country by the federal, the local government and also by the states. For example, the construction of a new building such as hospital and school. Also a payment of the salaries to the public servants in the country.

National income is the net value of commodities and services produced by the nation's economic systems. It is sometimes called net national product. (Simon Smith Kuznets).

To increase and generate the standard of living among the people in the country and to ensure the stability of the economy of the country such as Brunei, Japan, Vietnam, Taiwan and China, the country must have a strong economic growth in order to boost the performance of the country towards the standard of living of the people. Sometimes, economic growth may fall or decrease and sometimes it also may arise or increase due to the factors that contribute and lead to economic growth. To achieve the economic growth of the country, it takes the national income which is real gross domestic product (RGDP) and real gross national product (RDNP).

According to Hussin Abdullah and Salamah Maamar, they claimed that, the

components or the term of the national income remain fixed price whereby basic price of the goods in the year. they also claimed that government expenditure were play the importance factors to restore and restructure the economy in country.

In this study, we aim to used the times series data to examine the relationship of government expenditure and national income and to know the validity and effectiveness of the Wagner's law applied in Five Asian country which is Japan, Brunei, Taiwan, Vietnam and china.

## **1. 2 Problem Statement**

In this research, there are several and certain problem statement or problem definition were arise. According to Uma Sakaran (2000), problem statement and problem definition can be classified as a clear, precise and succinct statement of the question and any related issue that want to investigate with the objective and goal to solve the problem and finding the answer.

Government expenditure and national income was play the main important to develop the country development and to boost the economics growth. Wagner's law stated that, national product give a significant and positive impact to economics growth also has a relationship between government development expenditure.

Wherever, many researcher has conduct the research, examine and identify the relationship of the government expenditure and national income, the result or the finding is inconsistenly (chaiko Dritsaki, Melina Dritsaki) 2010. They found that, the government expenditure and national income are not

consistency as stated of Wagner's law where, it has a relationship between government expenditure and national income.

### **1.3 Objective of the study**

There are several objectives that classified in this study. The objective include or consist;-

To know the validity of Wagner's Law towards relationship between government expenditure and national income.

To examine the relationship of government expenditure and national income

### **1.4 Scope and limitation of study**

#### **1.4.1 Data availability and accessibility**

This study will cover and carried out a limited no. of observation due to the lack of the data availability and accessibility. Due to the lack of data that researcher needed, the result will not give the accurate result because of the small number of observation.

#### **1.4.2 Time Constrain**

To complete this research, only two (2) months are given to complete the research. Thus, the researcher only can observe a 30 years only due to the other responsibility.

#### **1.4.3 Lack of literature review and related issued**

On this study that be conducted, it were lack of the literature review and any related issues that can be support to answer the finding or the problem. Its difficult to find the Literature review of this study.

## **1. 5 Significance of the problem**

### **1. 5. 1 to the researcher**

Researcher may gain the experience and also can gain the knowledge. It may give the advantages to the researcher where researcher may apply the econometric model into this research.

### **1. 5. 2 to other researcher**

Giving the beneficial where give the positive impact to other researcher. They may use this research as a reference and guideline regarding their topic that want to study and conduct.

### **1. 5. 3 to public**

Public may gain the information and know about the existence of the Wagner's Law. They also may get the knowledge and information towards this research.

## **2. 0 LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK**

### **2. 1 Introduction**

This part will discuss the past research that has been done by other researcher to prove the relationship government expenditure and national income based on Wagner's Law. Government expenditure and national income play the major important in macroeconomics. These often used to know the fluctuation in the economy growth based on the government expenditure and also national income. However, some researcher found that the relationship of government expenditure and national income are inconsistently. (Chaido Dritsaki<sup>1</sup>, Melina Dritsaki<sup>2</sup>). some researcher has

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been done the research towards the relationship of government expenditure and national income.

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National income is the net value of commodities and services produced by the nation's economic systems. It sometimes called net national product. (Simon smith Kuznets).

Many researchers has been investigate, study and examines the relationship and causal between government expenditure and national income in other country. In this research, five of Asian country want to be tested such as Brunei, Japan, china, Vietnam and Taiwan.

## **2. 2 Model Specification**

According to hallam (1990), he stated that, economics modeling consist of 5 stages which is in the first stage, include and involving the specification of the model. The second stager as known as collects and manipulate the relevant data to conduct the research. The third research, the researcher need to estimate the relationship between the variable. Tested and evaluate the data is a fourth stages and the final stages of economic modeling is apply the model that want to be conducted. To conduct this study, based on the other researcher, they applied the certain econometric method to

analyze the data and information. The methodologies that researcher used to analyze data is;-

### **2. 1. 1 Unit root test**

In order to know the stationary of the both variable, independent variables and dependent variables, unit root test can test it.

### **2. 1. 2 Autoregressive distributed lag model**

This method were introduced by Pesaran et al (2001)

### **2. 3 Literature Review**

Wagner's law plays the important role while doing this research, the relationship between government expenditure and national income.

Wagner's law are the subject of this research and also the another empirical research that has be done by many economist and researcher to investigate and examines the causal relationship between government expenditure and national income. There are two (2) theory while define and classified the relationship. First based on Wagner's law (1890) and the second is based on Keynesian approach (1936). According to Wagner's law, government Expenditure are more rely and more growing up faster. According to Keynesian, he was argued to the Wagner's law. Whereby, government expenditure is causes to the national income. This mean, have are relationship of public expenditure to national income.

Next, based on the early investigation and study based on another researcher and economist, public expenditure was play the important role to economy and this may lead the stability in the short run fluctuation in the aggregate expenditure(Singh and sahani, 1984). According to Barro (1990), <https://assignbuster.com/government-expenditure-and-national-income/>

his explain that, fiscal policy are influences the Economy activity and may lead to the economy growth. Continue with the previous study about the relationship of government expenditure and national income, according to Ergun dogan & Tuck cheong teng, they test the country Asian such as, Malaysia, Indonesia, Philippines, Singapore and Thailand. They used time series data to apply the econometric and only Philippines are valid. Meaning has a causality run. Another country is no evidence. It's strongly supported by the granger causality tests. This means, the relationship of the government expenditure and national income were exist in Philippines country only.

According to Hussin Abdullah, selamah maamar (2010), attempt to see how far the Wagner's law is valid in Malaysian country. Used the five (5) version of Wagner's law and show that only four (4) Wagner's law are significant that can been applied in Malaysian country.

According to Sabri azgu (2010), found that in Turkish country, national income may lead to increase into public expenditure. The result is used by the granger causality test and there is unilateral causality relationship are gets.

The previous research in United Kingdom, according to the government expenditure and economic growth, (john laizibes, George vamvoukas, 2001), they was found that exist and have are relative size of government. From that, Wagner's law is valid in UK country. This studies used the time series data from early 1950 to mid 1990s.



According to Chaido and Melina dritsalki (2010), they were study of direction causality between national income and government expenditure. This include twelve (12) new members of E. E namely Bulgaria, Cyprus, czech republic, Estonia, Hungary, Lithuania, let via, Malta, Poland, Romania, Slovenia and Slovakia. Used the granger causality test, found that only three (3) country can be detected on the relationship between government expenditure and national income in term of long run relationship, which is by Cyprus, Poland and Romania.

Many economists do the research to test the relationship of the government expenditure and national income. But, the result is differing significantly from country period to period of time. (Jamshaid ur, Asim iqbal, Wasif siddiqi. 2010). Tested of Pakistan, they found that, when the economy is boost to economy growth, this may causes the government expenditure. Strongly supported by using the bivariate. Meaning, in Pakistan, Wagner's law is valid, this result are used the Toda and Yamamoto (1995) method to explores.

## **2. 4 Conceptual Framework**

Based on the literature review and the previous research the researcher has developed the theoretical or conceptual framework. This conceptual framework gives an explanation between two variables which is dependent variable and independent variables. It also shows whether dependent variable can or may be influenced by independent variables

GROSS DOMESTIC PRODUCT

GOVERNMENT EXPENDITURE

## GOVERNMENT CONSUMPTION

## POPULATION

# **INDEPENDENT VARIABLES DEPENDENT VARIABLES**

## REAL GROSS DOMESTIC PRODUCT

## NATIONAL INCOME

### **2. 3. 1 Dependent variable**

Dependent variable is a criterion or variable that is to be predicted or explained.

### **2. 3. 2 Independent variable**

Independent variable that is expected variable that influence the dependent variable

## **3. 0 DATA AND METHODOLOGY**

### **3. 1 Introduction**

The data that researchers collect are from the world bank data. its consist of the government expenditure and national income of the five asian country which is Japan, Brunei, Taiwan, China and Vietnam. In this chapter, its consist of data, population and sampling methods, also the analysis of data, the hypothesis development and cover the summary of the chapter.

### **3. 2 Data, Population and Sampling**

The data that want to be collected is based on secondary data whichs is from the journal, the article, books. But, the data are mostly gets from the world

bank data via internet. In this study, we tend to use time series data, which consists of 30 years no. of observation from 1980 to 2009.

### 3.3 Analysis of Data

In this chapter, the researcher will present about the method can be used in conducted this research about relationship of government expenditure and national income.

From previous studied or research, the other researcher tends to use the unit root test and ARDL which is autoregressive distributed lag model.

Wagner's Law was describe and stated that when income per capita is increase, it also led to increase in the government expenditure on gross national product. Basicly, there are five versions of Wagner's law versions.

There is:-

1. Peacock-Wiseman ' traditional' (1961)  $G = \hat{E}, (Y)$
2. Goffman (1968)(1980)  $G = \hat{E}, (Y/N)$
3. Musgrave (1969)(1993)  $G/Y = \hat{E}, (Yg/N)$
4. Gupta/ Michos (1987)  $G/N = \hat{E}, (Y/N)$
5. Peacock - Wisemen" share" (1980)  $G/Y = \hat{E}, (Y)$

### 3.4 Hypothesis Development

This research proposes to the following hypothesis:-

Ho : there is no affected of government consumption in government expenditure

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H1 ; there is affected of government consumption in government expenditure

Ho ; government expenditure are not affected by population

H1 : government expenditure is affected by population

Ho; Government expenditure no affected by gross domestic product

H1; Government expenditure is affected by gross domestic product

### **3. 5 Summary of Chapter**

Data methodology that we used are from 1980s until 2009s. the data used annually which is time series data and we tend to used the unit root test and Autoregressive distributed lag model.