UNIVERSITI TEKNOLOGI MARA

THE IMPACT OF CONSUMPTION ON ECONOMIC GROWTH: EVIDENCE FROM ASEAN COUNTRIES

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ABSTRACT

Economic growth is the measurement of the increasing in production of goods and services over a specific period. It is also included the increasing in capital goods, labour force, technology and human capital. Consumption is one of the theories applied in determining the economic growth. Consumption can be defined as how the consumers spend their income. Some of this income is spent on buying the products and services they need. According to the economists, they said that consumption is the main concept to determine the economic growth. So, is that true consumption is the major concept in the economic growth? This study is using a panel data sample of 10 ASEAN countries covering the periods of 2008 until 2018 (11 years). The dependent variable for this study is economic growth for the ASEAN countries (GDP). While the independent variables are household income, personal income tax rate, business investment, prices of goods & services, national saving and lastly national spending. The statistical methods use in this study are descriptive analysis, correlation analysis and regression analysis. At the end of the study, the expectation from this study is independent variables will give impact towards the economic growth in the ASEAN countries. At last, it has been proven that the household income, personal income tax rate, business investment and national saving give the positive effects while the other two (prices of goods & services and national spending) give negative effects towards the economic growth.

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

Economic growth is known as the increasement in the amount or quantity of goods and services that were produced per head of the population over a period of time. The capital goods, labor force, technology and human capital also included in the calculation. To identify whether it increase or vice versa, it must be compared from one period of time to another. To measure the economic growth, it can be calculated in nominal or real terms. Normally, economic growth is measured in term gross national product (GNP) or also known as gross domestic product (GDP).

The GDP is actually the total of market value or total monetary. It included the production amount of goods and services whether it sold domestically or overseas. It also has its own unique equation that form of GDP = C + I + G + NX. C is representing the consumption while I for investment, then G representing the government spending and lastly NX is for net exports. So, basically the most accurate measurement of growth is using the real GDP. Hence the real GDP is taking the impact of the inflation, it allows the country or giving the opportunity to compare the economic output from one year to another year or time to time.

In that equation, the first variable is C (consumption). Meaning that, consumption is vital part in the economic growing followed by capital investment (including foreign direct investment and domestic private investment), government spending and net export (Kim, 2017). In that case, it is attracting the researchers to study more about this special part. The economists list out many components under the consumption variable and try to figure which is becoming the most contributors towards the economic growth.