

**THE EFFECT OF TOURISM ON ECONOMIC GROWTH: A  
PRODUCTION FUNCTION APPROACH**



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#### **4. Enhanced Research Title and Objectives**

Original Title as Proposed:

THE EFFECT OF TOURISM RECEIPTS ON ECONOMIC GROWTH: A  
PRODUCTION FUNCTION APPROACH

Improved/Enhanced Title:

THE EFFECT OF TOURISM ON ECONOMIC GROWTH: A PRODUCTION  
FUNCTION APPROACH

Original Objectives as Proposed:

1. To determine the factors affecting long run economic growth.
2. To determine the long run Granger causality.

## **5. Report**

### **5.1 Proposed Executive Summary**

Tourism is one of the largest and fastest growing industries in the world. The upsurge of interest in the role of tourism for economic growth is due to its contribution to the host country in terms of foreign exchange earnings, employment, multiplier effects, etc. This turns the sector into a potential strategic factor for economic growth. Tourism in Malaysia follows the same trend. As far as the study is concerned, even there is a huge increase in tourism industry worldwide, the empirical results with regards to Granger causality are mixed between tourism and economic growth. Moreover, not much attention has been given to the issue of tourism and growth within neoclassical growth theory in Malaysia. Long term economic growth rates are conditioned by physical capital and human capital thus reflecting the importance of production functions to an economy. Therefore the link between economic growth, tourism and production functions is an important issue that needs to be analyzed in depth. With the above mentioned reasons, it has inspired the study to venture into this area within the Malaysian context and the objectives of the study are set to determine: 1) long run relationships, 2) the directions of Granger causality, and 3) the interaction of triangular relationships. The study employs econometric techniques such as unit roots, Johansen cointegration and multivariate Granger causality in vector error correction model (VECM). Based on time series data from 1974-2010, the study is able to determine: 1) the factors affecting economic growth, 2) whether economic growth act as endogenous or exogenous variables in the causal relationship and 3) the triangular relationship among economic growth, tourism receipts and production functions. The results obtained in the study will add to the knowledge in this field and suggest to the policy makers to further improve and sustain economic growth.