



UNIVERSITI TEKNOLOGI MARA

**THE IMPACTS OF GOVERNMENT EXPENDITURE
ON ECONOMIC GROWTH IN MALAYSIA**

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Thesis submitted in fulfilment of the requirements for the degree of

Bachelor of Business Administration

(Hons) Finance

Faculty of Business and Management

July 2017

ABSTRACT

This study is to investigate the impacts of government expenditure components on economic growth in Malaysia. The issues of this study is to know and get the clear picture in response to the financial crisis and its impact towards the economic growth when the government has increased government expenditure markedly in order to stimulate economic growth. Besides that, the purpose of this study is to examine whether government expenditure actually promotes economic growth. The research study observation is over 30 year period from 1986 to 2015. A total of 30 years of observations for each variable were taken into consideration for this study by using time series data for the country of Malaysia. The data has been analysed by using E-views 8.0 to do descriptive, unit root test, multiple regression, correlation analysis and test on assumption. The findings shows that all the variables are stationary where all the significant level is lower than 5%. Thus, it concludes that at least one of independent variables is affects the dependent variable. The T-test also shows that only variable of defense has no positive significant relationship with the economic growth while others variable which are education, health and infrastructure has a positive significant relationship with the economic growth.

ACKNOWLEDGEMENT

Alhamdulillah, thanks to ALLAH S.W.T, the Most Gracious and the Most Merciful for giving me strength on successfully completing this project paper. All the praises and thanks to Him for giving me the times, wills, guidance and strengths during the period of this project. This project paper will not successfully complete without cooperation from many parties. They have contributes a lots in preparing this project paper. I am thankful to many people who provide me the kind assistance or had contributed immensely to the success completion of this project paper in due time.

I wish to express my sincere gratefulness and gratitude to Madam Zuraidah bt Sipon who act as my advisor. Special thanks dedicated to the staff of Universiti Teknologi Mara, UiTM Segamat Library as well as my fellow classmates and friends for their helps, concerns, morals and materials support. I would like to grab this opportunity to express my deepest appreciation for those who had contributed a great deal towards the completion of this project paper. I have learnt much about this subject. I wish to extend my appreciation to my family, especially to my parent for their moral support in completion this project paper. In conclusion, I am grateful to ALLAH S.W.T for his guidance and the continuous good health and wealth which without His blessed I might have not complete this project paper.

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CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

Government expenditure and economic growth can be relate as long term run equilibrium relationship between them. It means that the government spending have either positive or negative influence towards economic growth in the country. For the recent years, many researcher had developed the hypothesis that have been empirically tested for the developed as well as developing country that give mixed results of the research. For example, Devlin and Hansen (2001) and Biswal et al. (1999) found evidence of causality between the economic growth and government spending. It also can review that many factors can give huge impacts to the economic growth. This paper will be more focus on the link between government spending and the economic growth in Malaysia. In addition, following other studies (Samudram et al. 2009;Kolluri et al. 2000), it also can be consider the link between economic growth and the components of government spending.

Actually, government expenditure could be classified into two which are current expenditure and capital expenditure. The expenditure of government in which regularly occur for every year referred to the current expenditure. They should be made frequently if the elements of government must be kept up. They includes incorporate the consistent pay rates of all workers, cash spent on the running of fundamental administrations or general support of infrastructural offices and cash spent on organization. Capital expenditure on the other hand are the expenditures of government on the acquisition of things of permanent nature (Nwaeze 2010). They incorporate all consumption on capital undertakings, for example, structures, development of streets, bridges and every lasting structure and resources of assets. These include huge sums of cash and also create the basis of development for the country.