

**AN EMPIRICAL INVESTIGATION ON THE RELATIONSHIP BETWEEN
EXTERNAL DEBT AND ECONOMIC GROWTH IN MALAYSIA**

**SYLVIA AK ALEXANDER
2014175977**

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ABSTRACT

The objective of this paper is to investigate the relationship between external debt and economic growth in Malaysia over the period of 30 years. This study employs Ordinary Least Square (OLS) and Two Stage Least Square (2SLS) approach for analysing the relationship among the selected variables. The empirical result shows that external debt has significant negative effect towards economic growth. Domestic saving has insignificant positive effect with external debt when using OLS and 2SLS and the relationship between domestic saving and GDP seems to have significant positive relationship in OLS but not the 2SLS because in 2SLS, domestic saving become insignificant and positive. Meanwhile, government expenditure has insignificant positive effect towards external debt by using both of the method while government expenditure has positive significant relationship towards economic growth when using OLS but 2SLS give result in insignificant effect and positive relationship.

Keywords: OLS, 2SLS, GDP