

**NEXUS BETWEEN GOVERNMENT EXPENDITURE AND PER
CAPITA INCOME IN NEPAL**

A Research Thesis

Submitted to the Faculty of Humanities and Social Sciences,

Central Department of Economics, Tribhuvan University

Kritipur, Kathmandu, Nepal

In the Partial Fulfillment of the Requirements

For the Degree of

MASTER OF ARTS

IN

ECONOMICS

By

Binu Basnet

Exam Roll No.: 130/064

TU Regd. No.: 6-1-249-7-2002

Central Department of Economics

Tribhuvan University, Kritipur

Kathmandu, Nepal

April 2019

LETTER OF RECOMMENDATION

APPROVAL LETTER

We have concluded the viva-voce examination of the thesis entitled **NEXUS BETWEEN GOVERNMENT EXPENDITURE AND PER CAPITA INCOME IN NEPAL** submitted by **Ms. Binu Basnet** in partial fulfillment of the requirements for the degree of **MASTER** in **ECONOMICS**. We found this thesis satisfactory in scope and quality and written according to the prescribed format. Therefore, we accept it for the Master in economics.

Evaluation Committee

.....
Prof. Kushum Shakya, Ph. D.
(Head of the Department)

.....
Prof. Neelam Kumar Sharma
(External Examiner)

.....
Prof. R.K. Shah, Ph. D.
(Thesis Supervisor)

Date: 2075/12/21 BS
04/04/2019 AD

ACKNOWLEDGEMENTS

I would like to express my great sense of gratitude to my respected research supervisor Prof.Dr.R.K. Shah, for invaluable supervision, constructive comments and suggestions, which gave the final shape of this thesis.

I would like to express my indebtedness and gratitude to the many individuals, who have assisted to shape this thesis in the present form. First of all, my gratitude goes to all the teachers and staffs of the Central Department of Economics, Kirtipur, whose sound theoretical knowledge provided me the basis for the preparation of the thesis.

I am indebted to the staffs of various Co-operatives for providing necessary data, information and congenial environment for preparing this thesis.

Likewise, I would like to extend my propound gratitude to Prof.Dr.KushumShakya, Head of the Central Department of Economics, for granting me an opportunity to carry out this research. I am also thankful to all my colleagues, friends for their efforts and supports in this research work.

Last but not the least, I would like to express my heartfelt thanks to my husband Mr.HariharK.C., who helped me, typing and designing of this thesis neat and clean.

BinuBasnet

TABLE OF CONTENTS

	Page No.
LETTER OF RECOMMENDATION	i
APPROVAL LETTER	ii
ACKNOWLEDGEMENTS	iii
TABLE OF CONTENTS	iv
LIST OF TABLES	vii
LIST OF FIGURES	viii
ABBREVIATIONS/ACRONYMS	ix
CHAPTER I: INTRODUCTION	1-6
1.1 Background of the Study	1
1.2 Statement of the Problem	4
1.3 Objectives of the Study	5
1.4 Hypotheses of the Study	5
1.5 Significance of the Study	5
1.6 Limitations of Study	6
1.7 Organization of the Study	6
CHAPTER II: LITERATURE REVIEW	7-28
2.1 Theoretical Development	7
2.1.1 Wagner Hypothesis	8
2.1.2 Peacock-Wiseman Hypothesis	9
2.1.3 Colin Clark Hypothesis	10
2.1.4 Baumol's Hypothesis (Productivity Lag Hypothesis)	10
2.1.5 The Armev Curve	10
2.1.6 Stanley Please Hypothesis	11
2.1.7 Samuelson Approach	12

2.1.8	Classical Views on Public Expenditure	13
2.1.9	Keynesian views on Public Expenditure	13
2.1.10	Economic Base Theory	15
2.1.11	The Solow Model	15
2.1.12	Harrod-Domar Growth Theory	16
2.2	Empirical Review	16
2.2.1	International Context	16
2.2.2	National Context	23
2.3	Research Gap	28
CHAPTER III: RESEARCH METHODOLOGY		29-35
3.1	Research Design	29
3.2	Study Period	29
3.3	Nature and Sources of Data	29
3.4	Data Analysis Techniques	29
3.5	Model Specification	30
3.6	Time Series Analysis	31
3.7	Serial Correlation	31
3.8	Heteroscedasticity	32
3.9	Normal Distribution	33
3.10	R^2 and Adjusted R^2 Estimation	33
3.11	T- Test	34
3.12	F – Test	34
3.13	Standard Error of Regression Line	35
CHAPTER IV: ANALYSIS AND INTERPRETATION OF DATA		36-44
4.1	Performance of Principle Repayment	36
4.2	Performance of Recurrent Expenditure	37

4.3	Performance of Capital Expenditure	39
4.4	Per Capita Income	41
4.5	Summary Statistics	42
4.6	Correlation Coefficients	42
4.7	Regression Analysis	43
CHAPTER V: SUMMARY OF MAJOR FINDINGS, CONCLUSION AND RECOMMENDATIONS		45-48
5.1	Summary of Major Findings	45
5.2	Conclusion	47
5.3	Recommendations	47
REFERENCES		49-53
APPENDICES		54-57

LIST OF TABLES

Table	Little	Page
Table 4.1	Performance Principle Repayment	36
Table 4.2	Performance Current Expenditure	38
Table 4.3	Capital Expenditure	40
Table 4.4	Per-Capita Income	41
Table 4.5	Summary Statistics	42
Table: 4.6	Correlation Coefficient	43

LIST OF FIGURES

Figure	Little	Page
Figure 4.1(a)	Trend Line of Principal Repayment	37
Figure 4.1(b)	Trend Line of Growth Rates of Principal Repayment	37
Figure 4.2 (a)	Trend Line of Recurrent Expenditure	38
Figure 4.2 (b)	Trend Lines of Growth Rats of Recurrent Expenditure	39
Figure 4.3(a)	Trend Line of Capital Expenditure	40
Figure 4.3 (b)	Trend Line of Capital Expenditure	41

ABBREVIATIONS/ACRONYMS

CBS	:	Central Bureau of Statistics
RE	:	Recurrent Expenditure
DW	:	Durbin-Watson
CE	:	Capital Expenditure
et al.	:	And others
FY	:	Fiscal Year
GDP	:	Gross Domestic Product
GoN	:	Government of Nepal
i.e.	:	that is
MoF	:	Ministry of Finance
NRB	:	Nepal Rastra Bank
OLS	:	Ordinary Least Squares
PCI	:	Per Capita Income
PR	:	Principle Repayment
RGDP	:	Real Gross Domestic Product
NRs.	:	Nepalese Rupees
UK	:	United Kingdom
USA	:	The United States of America
WTO	:	World Trade Organization