DETERMINANTS OF GOVERNMENT EXPENDITURE AND ITS RELATION WITH NATIONAL INCOME IN NEPAL

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LETTER OF RECOMMENDATION

This thesis entitled **Determinants of Government Expenditure and Its Relation with National Income in Nepal** has been prepared by Mr. Deepak Raj Awasthi under my supervision. I hereby recommend this thesis for examination by the Thesis Committee as a partial fulfilment of the requirements for the Degree of Master of Arts in Economics.

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APPROVAL LETTER

We member of thesis committee, evaluated the thesis entitled **Determinants of Government Expenditure and Its Relation with National Income in Nepal** prepared by Deepak Raj Awasthi to the Central Department of Economics, Faculty of Humanities and Social Sciences in partial fulfilment of the requirements of the Degree of master of Arts in Economics have found satisfactory in scope and quality. Therefore, we accept this thesis as a part of the Degree.

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ABSTRACT

This thesis empirically examines the determinants of government expenditure growth and its causal relationship with national income in Nepal. The study employs a Least Square Multiple Regression Model to analysis the determinants of government expenditure growth in Nepal. Subsequently pair wise Granger Causality test has been used to test the causality between government expenditure growth and GDP growth in Nepal, and finally government expenditure elasticity with respect to GDP in Nepal. The analysis has been done by using time-series secondary data from FY 1974/75 to 2016/17.

The research study used chooses the explanatory variables by considering three broad areas. They are economic, demographic and political. Under economic areas the four variables have been used. They are real GDP, real tax receipt, inflation and real foreign assistance. And population growth and political instability have been used as a demographic and political variables respectively.

The result of multiple regression shows that real foreign assistance growth and inflation has significantly impact or determine the total government expenditure growth in Nepal. All remaining variables do not have any significance impact on government expenditure in Nepal. Again, the result of causality test shows that there has unilateral causality between government expenditure growth and GDP growth. It means that the government expenditure growth does causes GDP growth but GDP growth does not cause government expenditure growth in Nepal. Finally, the result of government expenditure elasticity with respect to GDP in Nepal is less then unitary. It indicates that the GDP is less responsive to change in government expenditure in Nepal.

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ABBREVIATIONS/ACRONYMS

ADF	Augmented Dickey Fuller
ARDL	Autoregressive Distributed Lag
CBS	Central Bureau of Statistics
etc.	etcetera
FY	Fiscal Year
GDP	Gross Domestic Product
MoF	Ministry of Finance
NCPI	National Consumer Price Index
NRB	Nepal Rastra Bank
p-value	Probability Value
PI	Political Instability
POP	Population
POPG	Population Growth
RGE	Real Government Expenditure
RGEG	Real Government Expenditure Growth
RGDP	Real Gross Domestic Product
RGDPG	Real Gross Domestic Product Growth
RFA	Real Foreign Assistance
RFAG	Real Foreign Assistance Growth
RTGR	Real Total Government Revenue
RTGRG	Real Total Government Revenue Growth
SIC	Schwarz Info Criterion