

**AN ECONOMETRIC ANALYSIS OF THE RELATIONSHIP
BETWEEN PUBLIC EXPENDITURE AND
NATIONAL INCOME IN MALAYSIA**

BY

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DEDICATION

To my parents, Tung Poh Cheng and Choy Soo Heng, for all their love and sacrifices made in ensuring a healthy environment to pursue my life and studies; my elder sister Tung Yin Peng and my younger brother Tung Kok Hong for their constant encouragement, love, concern and support.

ACKNOWLEDGEMENT

Thanks must begin to my supervisor of this research paper and also my lecturer, Associate Prof. Dr. Tan Eu Chye, for his valuable guidance and intellectual teachings. Through out the duration of this research paper, he has portrayed immense dedication and support in helping me overriding obstacles that I have encountered. His critical thinking has been vital to the completion of this paper. I appreciate his time spent on reading my numerous drafts in guiding me with the flow of this paper.

I would also like to take this opportunity to extend my gratitude to other lecturers in Faculty of Economics and Administrations, especially Associate Prof. Dr. Kwek Kien Teng, Prof. Dr. Kok Kim Lian, Associate Prof. Mr. Tey Nai Peng, Associate Prof. Dr. Cassey Lee, Dr. Yeoh Kok Kheng, Dr. Yap Su Fei, Dr. Rohana Jani and Datuk Dr. Sulaiman Mahbob, for their support, guidance and advice during the entire course period. Special thanks to all the administration staffs in Faculty of Economics and Administrations, especially Ms. Lulu, for their support in administration masters works.

Final thanks go to all my friends, particularly Sook Lu and Foong-Yi, for their warmth friendship and constant encouragement. To all my coursemates, thanks for your help and the brainstorming discussions we had during the entire course period.

ABSTRACT

The purpose of this study is to analyse public expenditure growth in Malaysia for the period of 1970-2000. This paper investigates the existence of a long-run relationship between national income and various categories of public expenditure as proposed by Wagner's Law. In Wagner's framework, public expenditure can be treated as an endogenous factor that suggests that public expenditure grows as a result of growth in national income. Causality is expected to run from national income to public expenditure. This contradicts the famous Keynesian doctrine that treats public expenditure as an exogenous factor. As opposed to Wagner's Law, it implies that causality runs from public expenditure to national income. There appears to be no long-run relationships between Malaysian national income and various categories of public expenditure. Based on the results, we can conclude that Wagner's Law, which is a long-run phenomenon, is not valid in Malaysia. In contrast, empirical results indicate that the Keynesian paradigm plays a dominant role in explaining the short-term relationship between national income and public expenditure in the Malaysian economy.

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