



Fiscal Policy and Economic Growth
A Case Study of IRAN

Jahangir Byiabani*

Reza Mohseni**

* Assistant Professor of Economics, Faculty of Economics and Social Sciences

** Assistant Professor of Economics, Power and Water University of Technology, Tehran, Iran

Contents

Subject	Page
Abstract	461
1- Introduction.....	462
2- Theoretical Foundation and Empirical Controversies.....	462
3- Modeling an Aggregate production Function for Iran.....	464
4- Empirical Results.....	466
4-1- Unit- Root Tests.....	466
4-2- Cointegration Analysis.....	466
4-3- Short –Run Dynamics: Estimation of a Vector Error Correction Model.....	468
4-4- Variance Decompositions and Impulse Responses Functions....	469
5- Conclusions.....	473
References	475

Tables

Subject	Page
Table 1- Johansen-Juselius Maximum Likelihood Cointegration Test and Estimates of Long-Run Cointegrative vector	467
Table 2- Estimated Error – Correction Modle.....	468
Table 3- Granger Causality in gross domestic product error correction modle.....	469
Table 4- Variance decomposition of gross domestic product.....	470

Figures

Subject	Page
Figure 1- Response of Lnc(GDP) to Generalized one S.D.Ln (Ic) Innovation.....	471
Figure 2- Response of Ln(GDP) to Generalized one S.D.Log (Id) Innovation.....	472
Figure 3- Response of Ln(GDP) to Generalized one S.D.Ln (Tax) Innovation.....	475

Abstract

The paper analyses and estimates the impact of fiscal policy on Iran's economic growth during the period 1974-2007. Using co-integration techniques and a vector error correction model, it shows that there exists a unique long-run relationship between economic growth and its major determinants including public investment and private investment, human capital stock and labor force. Also, the short-term error correction dynamics analysis shows that, aside from private investment and human capital accumulation, public investment has a significant role in dynamic of growth.

Keywords: Fiscal Policy, Economic Growth, Co-integration, Error Correction Model.

JEL classification: E62, C22, O40.