

THE CAUSAL RELATIONSHIP BETWEEN FDI AND ECONOMIC GROWTH IN INDIA

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ABSTRACT

At present the issue of foreign direct investment (FDI) is gaining more attention, both at the national and international level. FDI continues to gain in importance as a form of international economic transaction and as an instrument of international economic integration. This study examines the causal relationship between Foreign Direct Investment and economic growth in India using quarterly time series data from 1996-97Q1 to 2011-12Q4. This study used two variables such as real FDI and real Gross Domestic Product. The data are tested for stationarity by ADF test. They are found to be non-stationary at level but stationary at the first differences. Then, by applying Johansen co-integration test the two variables are found to be co-integration. The results of Granger Causality that there is uni-directional causality between these two variables, that is, FDI cause economic growth in India. This empirical result suggests that FDI could help to boost the economic growth in India. This study recommends that the government should encourage more FDI inflows which promote the economic growth in India.

KEY WORDS: Augmented Dickey-Fuller (ADF), Foreign Direct Investment (FDI), Gross Domestic Product (GDP) and The New Economic Policy (NEP).

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