REVISITING THE EFFECT OF GOVERNMENT EDUCATION EXPENDITURE ON ECONOMIC GROWTH IN MALAYSIA: USING DISAGGREGATE APPROACH

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This study aims to estimate the effects of education expenditure on economic growth in Malaysia, using annual data from 1980 to 2012. The Malaysian government has invested a lot on the education, however, it appears that the innovation, productivity and technology advancement are not improving as expected in order to produce a better-educated labour force for accelerating the economic growth. Therefore, there is need to re-examine the effect of government education expenditure on economic growth. This study also takes a closer look at the effects of levels of education on economic growth. The finding indicates that there is a positive effect exists between the economic growth and federal government development in the long-run. This study also reported the existence of a positive effect between the levels of education and economic growth in the long-run. The empirical findings of Granger causality based on the error-correction model estimate indicates unidirectional causality runs from economic growth to development education expenditure. This study also reports the unidirectional causality runs from the economic growth to secondary and tertiary levels of attainment. The role of government expenditure on education and levels of education, especially the secondary and tertiary education level seems to be very important and significantly explains economic growth of Malaysia. Therefore, this study suggests that the government should make investments in education, especially in quality inputs such as teaching and learning process, skills and technology aspects in order to create higher skilled human capital, which leads to the skilled labor force, later leads to the better economic growth which is in line with the national aspiration to become a high income economy by the year 2020. High income economy ones can be achieved if we have a highly skilled human capital in the entire field.

Key Words: education expenditure, levels of educational attainment, economic growth, granger causality, Malaysia.
ABSTRAK


Kata kunci: perbelajaan pendidikan, tahap kemasukan persekolahan, ekonomi, granger, Malaysia.
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# TABLE OF CONTENT

<table>
<thead>
<tr>
<th>PERMISSION TO USE</th>
<th>i</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABSTRACT</td>
<td>ii</td>
</tr>
<tr>
<td>ABSTRAK</td>
<td>iii</td>
</tr>
<tr>
<td>ACKNOWLEDGEMENT</td>
<td>iv</td>
</tr>
<tr>
<td>TABLE OF CONTENT</td>
<td>v</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td>vii</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
<td>ix</td>
</tr>
</tbody>
</table>

## CHAPTER 1: INTRODUCTION

1.0 Government Spending on Education and Economic Growth 1
1.1 Government Expenditure on Education and Economic Growth in Malaysia 5
1.2 Problem Statement 7
1.3 Research Questions 12
1.4 Objectives of the Study 13
   1.4.1 General Objective 13
   1.4.2 Specific Objectives 13
1.5 Significance of the Study 14
1.6 Scope and Limitations of the Study 17
1.7 Organization of the Study 17
CHAPTER 2: LITERATURE REVIEW

2.0 Introduction 18

2.1 Theoretical Background 19


2.3 Critical Review of Research Gaps 35

CHAPTER 3: RESEARCH METHODOLOGY

3.0 Introduction 38

3.1 Theoretical and Conceptual Framework 38

3.1.1 Theoretical Framework 38

3.1.2 Conceptual Framework 41

3.2 Econometric Model 42

3.3 Hypothesis of the Research 44

3.4 Research Methodology 44

3.4.1 Unit Root Test 46

3.4.2 Cointegration Test 47

3.4.3 Granger Causality Test 49

3.5 Operational Definition 53

3.6 Data Description 56
# CHAPTER 4: RESULTS AND DISCUSSION

## 4.0 Introduction

## 4.1 Numerical and Graphical Descriptive Statistics

### 4.1.1 Numerical Descriptive Statistics Analysis

### 4.1.2 Graphical Descriptive Statistics Analysis

## 4.2 Econometric Analysis and Results

### 4.2.1 Stationary Tests and Non-stationary

### 4.2.2 Cointegration and Hypothesis Testing Results

### 4.2.3 Causality Analysis for Model 1 and Model 2

# CHAPTER 5: CONCLUSION, IMPLICATIONS AND RECOMMENDATIONS

## 5.0 Introduction

## 5.1 Conclusion

## 5.2 Implications and Recommendations

# REFERENCES

# APPENDICES
LIST OF TABLES

Table 1.1: The Global Competitiveness Index 4
Table 3.1: Variables Descriptions and Sources 55
Table 4.1: Government Expenditure on Education and Economic Growth Descriptive Statistics 58
Table 4.2: Results of Unit Root Test 65
Table 4.3: Johansen and Juselius Cointegration Test Results 68
Table 4.4: Granger Causality Results based on Vector Error Correction Model (VECM) 70
Table 4.5: Flow Diagram of Causality Linkages 72
### LIST OF FIGURES

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Government Expenditure on Education and Real Gross Domestic Product (GDP) at constant 2005 in Malaysia from 1980 to 2012</td>
<td>6</td>
</tr>
<tr>
<td>3.1</td>
<td>The effects of Government Education Expenditure on Economic Growth</td>
<td>41</td>
</tr>
<tr>
<td>4.1</td>
<td>Scatter Plot of GDP and Government Development Education</td>
<td>59</td>
</tr>
<tr>
<td>4.2</td>
<td>Scatter Plot of GDP and Government Operating Education</td>
<td>60</td>
</tr>
<tr>
<td>4.3</td>
<td>GDP, Federal Government Development and Operating Expenditure on Education in Malaysia from 1980 to 2012</td>
<td>61</td>
</tr>
</tbody>
</table>
CHAPTER 1
INTRODUCTION

1.0 Government Spending on Education and Economic Growth

Most of the recent studies on endogenous growth theory generally agree that human capital has a significant impact on economic growth. The human capital accumulated by the education has a potential to be broader and more sustainable due to the increase in the productivity and technology advancement (Lucas, 1988; Romer, 1990; Maitra and Mukhopadhyay, 2012; Jalil and Idrees, 2013). Further, human capital is an important element of growth, improving and complementing government’s development policies with a number of positive externalities that generated along with the increase in the private returns. However, formation of the human capital requires spending on education (Maitra and Mukhopadhyay, 2012). Education can be measured as the number of enrolments and levels of education, expenditure on education and training as well as the years of schooling (Lucas, 1988; Barro, 1991; Pritchett, 2001).

In other words, government spending on education contributes to the human capital, which will promote to the technological progress and later promotes the economic development. Besides that, the neoclassical growth theory expounded by Mankiw et al. (1992) shows that by considering the human capital as an additional input in Solow model, human capital has a potential impact on the level of economic growth.
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References


