

**MACROECONOMIC DETERMINANTS OF HOUSEHOLD
EXPENDITURE IN SRI LANKA: A MULTIVARIATE
CO-INTEGRATION APPROACH**

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DECLARATION

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ABSTRACT

The policymakers and economists in macroeconomics long have been given much attention on the factors determining the consumption expenditures because the level of consumption per person is often viewed as key measure of an economy's productive success. This study is used to analyse the macroeconomic determinants of household consumption expenditure in Sri Lanka for the case of Sri Lanka in the post economic liberalization using multivariate co-integration approach. As macroeconomic variables gross domestic product, gross domestic savings, gross national income are used to this study. The sample period consists of annual data from 1978 to 2016. Vector error correction model and Johansen co-integration approach are used to identify long run relationships among gross domestic product, gross national income, gross domestic savings and household final consumption expenditure in Sri Lanka. The Johansen co-integration test proved that the natural log value of household final consumption expenditure is co-integrated with natural log values of gross domestic product, gross domestic savings and gross national income. Vector error correction model indicated that the existence of long run causality among natural log values of household final consumption expenditure, gross national income and gross domestic savings. Wald test is used to determine short run causalities among gross domestic product, gross national income, gross domestic savings and household final consumption expenditure in Sri Lanka. Wald test revealed that significant short run causalities with natural log values of household final consumption expenditure, gross domestic product, gross national income, and gross domestic savings.

Key Words: Co-integration, Vector error correction model, Household final consumption expenditure, Variance Decomposition, Impulse Response Function

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LIST OF ABBREVIATIONS

Abbreviation	Description
AIC	Akaike Information Criterion
GDP	Gross Domestic Product
GDS	Gross Domestic Savings
GNI	Gross National Income
HFCE	Household Final Consumption Expenditure
HQ	Hannan-Quin Information Criterion
IRF	Impulse Response Function
OLS	Ordinary Least Squares
SBC	Schwartz's Bayesian Criterion
US\$	United State Dollar
VDC	Variance Decomposition
VECM	Vector Error Correction Model

