

EconWorld2015@Torino

Building India: Evidence from VECM and Causal Analysis between Construction Activities and Economic Growth

Vandana Bhavsar¹, Anil Agarwal¹¹National Institute of Construction Management and Research, India

ABSTRACT

The present study investigates whether construction activities (viz. new construction and repair and maintenance construction) enhances the economic growth in India or not. The study uses a unique set of data to empirically examine the relationship between economic growth and value of output of construction (VOC) which further comprises of activities like new construction (NCON) and repair and maintenance (R&M) during the period between 1950-2012 in India. To this end, Johansen Cointegration Tests, Error Correction Model (ECM) and Granger causality tests were employed in order to determine the aforementioned relation. ECM suggests that there is long run relationship between the series. The ECM and Granger Causality results indicate that the economic growth tends to lead the growth in construction activities but not vice versa i.e. there is a uni-directional relationship between construction activities and economic growth. The results corroborate from previous work of developing economies and that findings have policy implications related to long run growth of the Indian economy.

KEYWORDS Construction Activities; Economic Growth; Error Correction Model; Granger causality; Johansen Cointegration tests

JEL C01, C32, E01, L74