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FACTORS INFLUENCING INDIA'S GDP GROWTH: GOVERNMENT SPENDING, JOBLESSNESS, INFLATION, AND DOMESTIC CONSUMPTION

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Abstract

This study investigates the primary elements that contribute to the expansion of India's gross domestic product (GDP), with a particular emphasis on government expenditure, jobs, inflation, and domestic consumption. Spending by the government is an essential component in the production of economic activity since it provides funds for various public services, social initiatives, and infrastructure expansion projects. Nevertheless, the influence that it has on growth needs to be weighed against the dangers that come with financial imbalances and inflation. Unemployment, also known as joblessness, has a considerable impact on the functioning of the economy. This is due to the fact that high unemployment rates lead to decreased consumer spending and can also result in increasing social inequality. On the other hand, economically, low unemployment rates are beneficial to economic growth since they increase consumer confidence and demand. A further important aspect is inflation, which has an impact on the spending power of consumers as well as the investment decisions of businesses. In spite of the fact that moderate inflation may be an indication of robust economic activity, inflation or deflation that is not under control can cause the economy to become unstable. One of the most important factors contributing to India's GDP development is domestic consumption, which is supported by the country's sizable and expanding middle class. The growth of businesses, the creation of new employment, and the contribution to the continued expansion of the economy are all supported by high levels of domestic consumption. It is the combination of these elements that results in a complex and interconnected environment that determines the path that India's economy will take. It is necessary to get an understanding of and effectively manage these components in order to foster growth that is both sustainable and inclusive in the country.

Keywords : *GDP, Growth, Joblessness, Inflation*

Introduction

Due to the fact that India is one of the largest and most rapidly expanding economies in the world, the country's economic growth has been the topic of a substantial amount of speculation and investigation. The understanding of the elements that either promote or inhibit this growth is essential for policymakers, economists, and other stakeholders who are working toward the goal of ensuring development that is both sustainable and inclusive. Among the many factors that have an impact on the expansion of India's Gross Domestic Product (GDP), there are four that stand out as particularly significant: government expenditure, joblessness (also known as unemployment), inflation, and domestic consumption. Spending by the government is a fundamental instrument for economic management since it enables the state to exert control over development by investing in

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essential areas such as education, healthcare, and infrastructure, among other important departments. Through the injection of money into the economy, government spending has the potential to boost demand, generate jobs, and enhance the standard of life for the general population. The difficulty, however, is in striking a balance between expenditures in order to minimize fiscal deficits and inflationary pressures, both of which have the potential to hinder long-term growth. Another important factor that determines the state of the economy is the unemployment rate, sometimes known as the unemployment rate. When unemployment is high, consumer spending can decrease, poverty can increase, and social systems can become more stressed, all of which can contribute to slower economic development. On the other hand, a low unemployment rate is often indicative of a thriving economy, which involves greater revenues that are available for discretionary spending and an increased demand for products and services. The economy is affected by inflation in two different ways. An excessive amount of inflation reduces buying power and might discourage investment, in contrast to moderate inflation, which is typically considered to be an indication of robust demand. On the other side, deflation, which is defined as a prolonged reduction in prices, can result in a decrease in economic activity and a rise in unemployment. As a result, the management of inflation is a primary responsibility for those who formulate economic policy. Lastly, domestic consumption is an essential driver of GDP development, particularly in a country with a large population like India with a large population. The demand for products and services is greatly impacted by the purchasing patterns of consumers, which are in turn heavily influenced by factors such as income levels, cultural characteristics, and economic optimism. An increase in domestic consumption leads to the expansion of enterprises, the creation of new employment, and overall economic growth. With this introduction, we will move on to a more in-depth investigation of the ways in which these elements interact with one another and influence the growth of India's GDP. For the purpose of formulating practical economic policies that foster stability, growth, and the general well-being of the population, it is vital to have a solid understanding of these linkages.

Economic Growth Context in India

The path that India has taken toward economic development has been characterized by fast growth, considerable policy reforms, and structural changes. Since the beginning of the 1990s, when economic liberalization was implemented, the nation's economy has seen a radical transformation, shifting from being predominantly based on agriculture to being more diversified, with significant contributions coming from the industrial and service sectors. Despite the fact that this transition has launched India into the ranks of major global economies, it has also presented issues that need to be controlled in order to maintain and improve GDP growth. The big and diversified population of the country, together with the vast geographical differences that exist, provides possibilities as well as challenges. India's demographic dividend, which is characterized by a youthful and rising workforce, has the possibility for continuous economic progress. On the other side, India's population is becoming younger. On the other hand, the gaps that exist between areas in terms of income, education, and infrastructure provide enormous difficulties to the process of inclusive growth. In order to ensure that the advantages of economic progress are fairly distributed and that the trajectory of the nation's development is equitable, it is essential to address these inequities.

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Importance of Government Spending

Spending by the government is a significant lever that may be used to influence economic growth. For the purpose of enabling commerce, investment, and general economic activity, India has made significant investments in infrastructure, such as roads, bridges, ports, and power plants. These investments have been vital in the construction of these essential infrastructure components. Furthermore, spending on social welfare programs, which include but are not limited to education, healthcare, and the alleviation of poverty, has a direct impact on the quality of life of the people, which in turn influences productivity and long-term economic growth. It is important to note that the efficiency and openness with which funds are distributed and utilized are critical factors in determining the efficacy of government expenditure in generating GDP development. Corruption and poor management can result in the waste of resources, which in turn undermines the potential advantages that could be gained from public expenditures. Furthermore, excessive borrowing by the government in order to finance spending can result in huge fiscal deficits and public debt, both of which have the potential to discourage private investment and contribute to inflationary pressures.

The Role of Joblessness

One of the most important indicators of both the state of the economy and the stability of society is the unemployment rate. There are larger socioeconomic ramifications associated with high unemployment, including increasing poverty, social discontent, and political instability. Not only does high unemployment diminish household incomes and consumer expenditure, but it also has these implications. The enormous informal sector in India, which employs a substantial segment of the workforce but frequently provides jobs that are unstable, low-paying, and offer little in the way of job security or social safety, is a big contributor to the problem of increasing unemployment in the country. It is necessary to use a multi-pronged strategy in order to combat unemployment. This approach should involve the promotion of economic sectors that have a high potential for job creation, such as agriculture, manufacturing, and service industries. In addition, expanding access to educational opportunities and vocational training is critical in order to provide the labor force with the competencies that are required for an economy that is going through fast change. It is also possible for employment policies that encourage good work and flexibility in the labor market to contribute to the reduction of unemployment and the promotion of economic growth.

The Impact of Inflation

When it comes to the expansion of the economy, inflation is a sword with two possible outcomes. In spite of the fact that a certain degree of inflation is typically connected with a rising economy since it indicates a rise in the demand for goods and services, inflation that is not under control can be counterproductive. If inflation is high, it will diminish the purchasing power of consumers, it will decrease the actual value of savings, and it will cause uncertainty for companies, which will ultimately result in a decrease in investment and economic activity. The sensitivity of the Indian economy to supply-side shocks, like as swings in global oil prices or low monsoon rains that influence agricultural output, makes it particularly difficult to control inflation in India. Both of these factors contribute to the difficulty of managing inflation. Through the use of monetary policy, the Reserve Bank of India (RBI) plays a significant part in the process of managing inflation. This includes the

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establishment of interest rates and the regulation of the money supply. The efficacy of these policies is absolutely necessary in order to preserve price stability and cultivate an atmosphere that is conducive to the advancement of the economy in a sustainable manner.

Domestic Consumption as a Growth Driver

One of the most important contributors to India's growing gross domestic product is the country's huge and growing middle class, which drives domestic spending. People are able to spend more money on products and services, which in turn fuels economic activity. This occurs when earnings increase and poverty levels decrease. It is especially crucial for a nation like India, where domestic demand accounts for a substantial component of the GDP, to have a growth strategy that is driven by consumption. However, in order to maintain high levels of domestic consumption, it is necessary to make continuous changes in the distribution of income, the creation of jobs, and access to credit. Further, the level of consumer confidence, which is impacted by a variety of factors like inflation, employment prospects, and economic stability, is a significant factor in shaping the patterns of consumption that people engage in. It is essential to ensure that growth is beneficial to a large portion of the population in order to keep domestic consumption at a healthy level and, consequently, to sustain robust growth in GDP.

Literature Review

Tenzin (2014) Despite the importance of macroeconomic factors such as inflation, unemployment, private consumption, state expenditure, and output growth to India's economy, very little is written about them. If India's economic policies are based on these fundamental ideas, then the success or failure of the economy will depend on these factors. With any luck, this research will add to what is already known and provide some useful policy recommendations that will help the Indian economy keep growing. Some have hypothesized that these recommendations could stem from a categorization of the differences in our existing understanding of how inflation and unemployment affect the economic performances of different countries. Take Bhutan as an example; it has been demonstrated that unemployment has zero impact on output. In contrast, **Muryani and Pamungkas (2015)** used the Error Correction Model (ECM) to show that unemployment has significantly boosted Indonesia's production growth. Using Auto-Regressive Distributed Lag (ARDL) regression, **Makaringe and Khobai (2015)** demonstrated that South Africa's unemployment rate reduces the country's output. A higher unemployment rate in South Africa is associated with higher production, according to research by **Banda, Ngirande, and Hogwe (2016)**. However, there is more consistent evidence that inflation lowers production when it concerns inflation. For instance, several studies have shown that inflation hinders economic growth. A number of different economic contexts have provided the data for these investigations. There seems to be some inconsistency "in the findings on the impact of unemployment on output, and this inconsistency may be" attributable to differences in the data types used and the different economic situations that were prevalent across the different time periods. One possible explanation for the observed differences in unemployment effects is a flawed or unfinished model that failed to account for important details.

Keynes, (2017) Rapid gains in national revenue are the result, according to Keynes's theory, of high aggregate demand, which is induced by increases in government expenditure. Among its many claims was that classical economics is flawed, that we will all die out in the

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end, and that the government should step in to fix market defects. Additionally, it posited that economies are in a constant state of flux, undergoing both expansion and contraction, rather than returning to a natural equilibrium. According to Keynes, fiscal policy should be counter-cyclical, meaning that government spending should be cut during economic prosperity and increased during economic recession. Despite Keynes's belief that government spending is an internal process, he categorized it as an external variable because of its ability to trigger inflation. It held the view that the state should take the lead in averting a downturn by increasing aggregate demand, which would stimulate the economy through a multiplier effect. Keynes established the concept of fiscal stimulus on the premise that more government spending would lead to more business activity and consumption. This theory states that when the government spends money, it raises both aggregate output and revenue.

Loganathan, (2015) In contrast, the central tenet of a Wagnerian theory is that a rise in national wealth causes a rise in government spending. The Wagnerian approach states that when a country's GDP grows, a larger share of that GDP is set aside for government spending. The correlation between government spending and economic growth has been the subject of a great deal of research. These analyses have shown that higher levels of government spending promote economic growth. But Carter established that as government spending increases, economic development slows down. A comparable study examined the connection between government expenditure, efficiency, and economic growth using a panel analysis of low-income workers in Sub-Saharan Africa. Findings indicate that government spending increases lead to faster economic growth in low-income Sub-Saharan African states. Also, between 1980 and 2007, researchers in twenty OECD countries attempted to determine whether and how government spending affected unemployment rates. The study concluded that the unemployment rate drops when government expenditure goes up.

Research Methodology

This is the model that was utilized for the current research project:

$$RGDP = \alpha_0 + \beta_1 UMP + \beta_2 INF + \beta_3 HHC + \beta_4 PCE + \beta_5 CPI + \beta_6 PCI + \beta_7 SAV + \epsilon \quad (1)$$

Where

RGDP: Gross domestic product in its Real Form;
unemployment

UMP: The rate of

HHC: Consumer Spending in the Home;
the Government

PCE: Amounts Spent by

CPI: The index of consumer prices;

PCI: Gross income per person

Because of its many benefits, Ordinary Least Square (OLS) was chosen as our estimate approach. The following are examples: I. Ordinary Least Squares (OLS) yields Blue estimates. II. Coefficient estimates approach the true population parameters as the sample size grows. III. The Outcome of Ordinary Least Squares (OLS) has no mean, constant variance, or correlation with other variables. Nevertheless, it is important to take into account a number of issues related to the OLS model. To be considered valid, a regression model must meet all of the following criteria: Parameters must be linear, explanatory variables cannot be stochastic, disturbance terms must not only be free of autocorrelations but also have a zero-mean, identical variance, and more terms than the number of parameters to be estimated.

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Data-explaining variables must not exhibit perfect multicollinearity, and the regression model must be accurately specified. Equation (1) represents RGDP, the dependent or predictor variable in the ordinary least squares (OLS) model. Here, UMP, HHC, PCE, CPI, PCI, and SAV are serve as the variables that are used to explain or determine something. Here are some arguments against the competing theory:

$H_0: \beta_i$ are equal to 0; against $H_1: \beta_i$ are not equal to 0.

The null hypothesis states that the factors that explain the dependent variables do not have any impact on those variables "if the P-value is greater than 5%. But the null hypothesis is not rejected when the Pvalue" is less than 5%, therefore it's safe to assume that the factors explaining the dependent variables do, in fact, affect the variables being explained.

Database

Over the course of thirty-one years, from 2015–2016 to 2016–2017 the data was gathered using time series techniques. The presentation included statistics on household consumption, government expenditure, GDP, PCAP, savings, CPI, unemployment, and more. The term "gross domestic product" (GDP) refers to the total monetary worth of all final products and services created inside a nation and their selling prices as of a specific date. It also takes into account any taxes or subsidies that weren't reflected in those prices. Everything a household purchases, including long-lasting appliances, computers, and vehicles, contributes to their total consumption expenditure. However, it does incorporate items like taxes and payments to governments for licenses and permits, as well as imputed rent for owner-occupied residences. Buying a house is not included in this. "Unemployment" is the economic term for the proportion of the working-age population that is not in a job or actively looking for work. Everything is shown as a percentage. An important source for the data included in the compilation was the National Accounts Statistics, which has been published in several editions by the Central Statistical Office (a government agency in India) and other relevant agencies.

Descriptive Statistics

The primary features of the data are detailed in Table 1. This section provides a numerical breakdown of the factors used to construct the model for this study . Table 1 shows that the coefficients range from -1.6516 at the lowest to 9.6855 at the highest. The minimum and maximum values of the coefficients are represented by these numbers, respectively. Under the null hypothesis that the model follows a normal distribution, all of the variables' Jarque-Bera statistics coefficients are 1% significant. Because of this, we may say that the model is typical.

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Table 1 : Statistics that are descriptive of the variables that are utilized "in the model"

Descriptive Statistics	RGDP	UMP	INF	HHC	GCE	CPI	PCI	SAV
Mean	0.0733	0.9729	0.1443	0.8276	-0.6475	0.0685	0.1398	0.4543
Median	-0.0216	0.0124	0.1317	0.5198	-0.9111	0.0182	0.1129	0.4628
Max.	0.8625	0.8211	0.2468	9.6855	0.5653	0.5628	0.3111	0.7816
Min.	-0.4465	0.0036	0.0843	0.0224	-0.6516	0.0019	0.0183	-0.1329
Std. Dev.	0.4465	0.5515	0.0477	0.6944	0.7932	0.1318	0.0878	0.4514
Skewness	0.5125	-0.3626	0.1658	4.9906	0.5012	3.5205	0.2326	2.6769
Kurtosis	0.6507	2.0906	3.3765	26.6482	0.7078	8.5894	0.8084	3.4502
Jarque- Bera	13.591	21.910	60.974	823.577	33.327	70.816	29.045	52.544
Sum Sq. Dev.	6.6752	9.8221	1.0661	73.2623	28.2972	1.5041	0.2238	6.9097

Source: Author computation.

Unit Root Test

To rule out the chance of spuriousness in the regression estimations, we ran a unit root test on the variables. The findings are shown in Table 2. To achieve this goal, the PhilipsPerron (PP) test was used in combination with the Augmented Dickey-Fuller (ADF) test. The Philips-Perron test corrects the statistic without parametric assumptions, unlike the Kwiatkowski-Phillips-Schmidt-Shin (KPSS) test. Because of this, it's reasonable to use the two tests in tandem. Philips-Perron does not incorporate any parametric changes to the statistic, in contrast to the ADF test which assumes that the error term is homoscedastic.

Table 2: Tests for the unit root of ADF and PP

Variables	ADF	Order of Integration		PP	Order of Integration	
		Level	First Difference		Level	First Difference
RGDP	-5.455105***	-	I(1)	-5.468414***	-	I(1)
UMP	-7.349013***	-	I(1)	-7.183951***	-	I(1)
INF	-3.289963**	I(0)	-	-8.330655***	-	I(1)
HHC	-6.211888***	-	I(1)	-5.894578***	-	I(1)
GCE	-5.775680***	-	I(1)	-13.56561***	-	I(1)
CPI	-5.816248***	-	I(1)	-4.116087***	-	I(1)
PCI	-6.661296***	-	I(1)	-8.496287***	-	I(1)
SAV	-6.788972***	-	I(1)	-7.045441***	-	I(1)

Source: Author concept. ***, ** and * represents 1%, 5% and 10% levels of significance Following the addition of the Phillips-Perron (PP) test to the Augmented Dickey-Fuller (ADF) test, the results demonstrate that the null hypothesis "has a unit root" and can be rejected

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for all variables. This is demonstrated in Table 2. This is demonstrated by the ADF test, which reveals that all of the variables, with the exception of INF, are integrated in the order I(1). In the same manner, it was discovered that each of the variables fell into the category of the order I(1). It is standard practice to continue finding the cointegration when the relevant variables are statistically significant and integrated in the same sequence. This is the case if the assumptions of ordinary least squares are valid.

During the period of 2015 to 2017, the rate of inflation in India

Table 2. From the year 2015 to the year 2017 the rate of inflation in the Indian economy.

Years	The rate of inflation (percentage)
2015-2016	10.90
2016-2017	12.09
2017	9.21

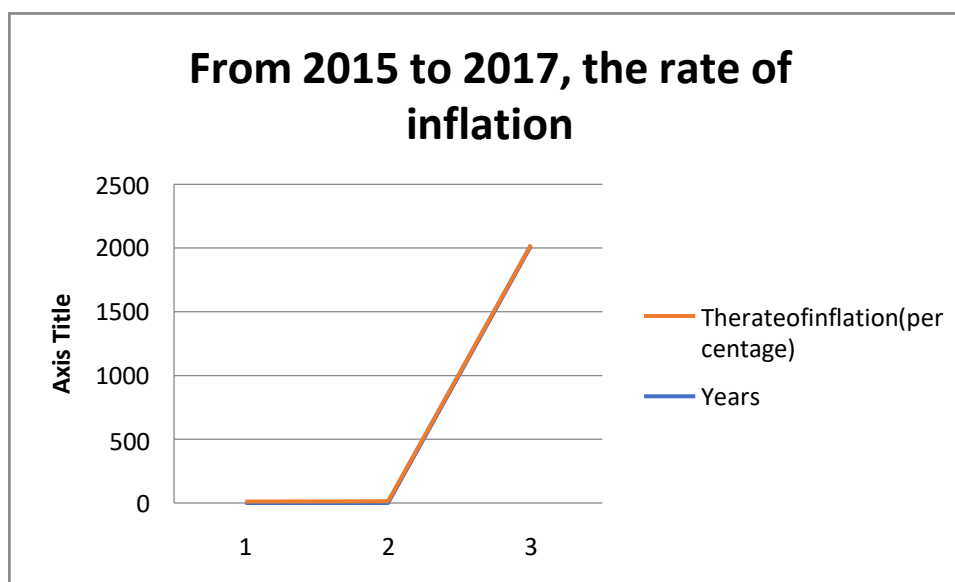


Figure 1 From 2015 to 2017, the rate of inflation in the Indian economy was as follows:

Over the period from 2015 to 2017, inflation rose by 1.19 percent, but from 2015 to 2016, it fell by 2.88 percent. Throughout 2016 and 2017, the rate of decrease remained constant and reached 7.12%. Based on the data presented above, the study concludes that inflation in the Indian economy fluctuates, not continuously but with periodic dips and spikes.

Table 4. In India, the rate of unemployment and inflation is reaching epidemic proportions..

Years	When it comes to the rate of unemployment (percentage)	The pace of increasing prices (percentage)
2015-2016	10.90	12.09
2016-2017	9.9	9.21

Source: The Ministry Of Labor And Employment; India.

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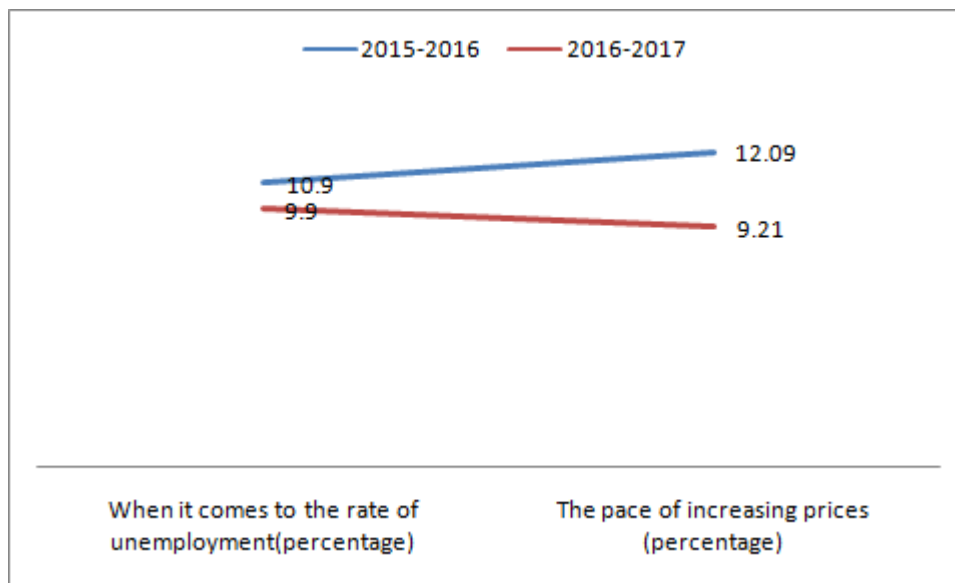


Figure 3 In India, the rate of unemployment and inflation are both at high levels.

Results

The model was subjected to a battery of pre- and post-implementation econometric estimate tests in accordance with the tenets of ordinary least squares (OLS). Among these tests were the following: the normalcy test, the Heteroskedasticity test, the Breusch-Godfrey Serial Correlation LM test, and the Ramsey RESET test. By all accounts, the test results show that the model's error component is normally distributed and devoid of sequential correlations. Along with correctly described model, no signs of heteroscedasticity were found. That is why the real gross domestic product (RGDP) was used to measure the growth of the economy. A number of other variables were also included in the model, including the following: household consumption, personal consumption expenditure, inflation rate, and unemployment (UMP, which stands for percentage of total unemployment). However, we did consider the combined effects of inflation, household spending, and unemployment using the following metrics: index of consumer prices (CPI), income per capita (PCI), net national savings (SAV), and gross domestic product (GDP). The dependent variable in this study is the real gross domestic product (RGDP). In addition, the dependent variable shows that all of the variables are integrated in the same order according to the unit-roots test findings (Table 2). All of the components may have an effect on the entire trajectory, according to this. After that, we ran a unit root test on the model's residual at many levels (for details, see Table 4). The purpose of this was to establish a long-term relationship between the variables.

Table 4: Residual test

	<i>t- statistics</i>	<i>1% level</i>	<i>5% level</i>	<i>10% level</i>	<i>Probability</i>
ADF test statistics	-9.352598	-2.604746	-1.946447	-1.613268	0.0000

The findings confirmed the existence of a causal link between the variables over the long run. Considering this, we adjusted the long-term link (ECM-1) based on the primary OLS estimate's findings. This is on top of the autocorrelation indicators shown by the Durbin-Watson Stat. This difficulty was reduced in the OLS estimate by using the Newey-West Hac standard error. As mentioned earlier, the results of the ordinary least squares estimate

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(table 5 below) show that there is autocorrelation, serial correlation, and cross-sectional dependency. Model estimation used the Newey-West Hac standard error approach to account for potential autocorrelation, cross-sectional dependency, and unobserved serial correlation. Based on the data, it appears that unemployment has a small, negative effect on real GDP (RGDP). This indicates that, everything else being equal, RGDP may fall by 1.1% due to a rise in UMP. When the inflation rate (INF) reaches a crucial level of 5%, it has a notable and positive impact on the gross domestic product (RGDP). According to the INF coefficient, the RGDP would decrease by about 8.618975 percent for every unit increase in the INF, all else being equal. Household consumption (HHC) had a beneficial influence on actual GDP, although it wasn't statistically significant. As a result, a 1% rise in HHC would cause RGDP to decline by about 3%. In addition, we found that individual consumption expenditure (PCE) is negatively connected to real gross domestic product (RGDP), however this association is not statistically significant. According to these numbers, the RGDP would fall by one percent for every one percent increase to the PCE. A positive correlation was found between the RGDP figures and the CPI, PCI, and SAV values. It was considered minor, even though DCPI significantly affected RGDP, PCI, and SAV. As an additional point, the ECM-1 produced a result of -1.296131, which indicates that the short run accounts for -12.9% of the long run.

Table 5 : OLS Estimated Result

<i>Variable</i>	<i>Coefficient</i>	<i>Std. Error</i>	<i>t- statistic</i>	<i>Probability</i>
DL_UMP	-0.011413	0.146862	2.401747	0.9451
INF	8.6189675	1.775689	-3.850316	0.0399
DL_HHC	0.030699	0.042431	-3.707633	0.5445
DL_GCE	-0.153400	0.237447	2.776283	0.5845
DCPI	5.188397	1.137679	5.169216	0.0449
DLPCI	0.245685	0.130709	6.235347	0.2009
DL_SAV	0.054300	0.130860	8.465941	0.7185
ECM(-1)	-1.206131			
Constant	-1.923214			
	R- Squared		0.622095	
	Adj. R-Squared		0.576952	
	F-Statistics		308.5839	
	D-W Statistics		2.749978	
	Normality test		887.7813	
	Serial Correlation Test		0.343527(0.7132)	
	Ramsey Reset Test		0.177975(0.0000)	
	Heteroscedastic Test		1.643656(0.1779)	

Conclusion

What influences the growth of India's gross domestic product (GDP) is the complex economic environment that is generated by the interplay of government expenditure, unemployment, inflation, and domestic consumption. This environment is what creates the complex economic environment. Each of these elements possesses its own set of dynamics and repercussions, and the ways in which they interact with one another may either amplify or mitigate the adverse consequences that they have on the economy. As policymakers work to develop policies that encourage growth that is both sustainable and inclusive, it is

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crucial for them to have a solid understanding of the linkages between these factors. The difficulty that will be faced by India as it continues to grow is to manage these aspects in a manner that optimizes the economic potential of the nation while also satisfying the needs and ambitions of its varied people. India will be able to continue on its road of economic expansion, which will improve the standard of living of its population and enhance the country's place in the international economy if it takes this step.

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