Asymmetric effects of public sector investment on economic growth

Ricardo Molina Díaz
Pablo Cachaga Herrera

Abstract

In the last decade, public investment increased considerably becoming an important factor for output growth. In this sense, this document analyzes the differentiated effect of public sector investment on GDP for the 1990 to 2016 period, assuming that the effect of public investment on economic activity will depend on the sector where resources be allocated (productive, infrastructure, social or multisectoral); also this effect will be differentiated in the short and long term. Considering the characteristics of the data, a cointegrated panel and an Error Correction Vector (VEC) model are used to estimate the short and long-term elasticities. Results show that investment in infrastructure has a greater effect in the long term, followed by productive investment.

JEL Classification: *E22, E23, E62*

Keywords: *Investment, production, fiscal policy, spending and investment*