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ABSTRACT

The present study has made an attempt to test empirically the relevance of Neoclassical and Endogenous growth models in analyzing economic growth experiences of some developed and developing countries for the period of 1960-2005. The empirical results found in the literature are conflicting to the predictions made by the theories therefore both the theories needs to be examined empirically using same data set, similar set of group of countries and same testing approaches. The study has tested convergence hypothesis using both cross section and time series approach. The groups of countries are classified on the basis of World Bank criteria on per capita income basis and geographical proximity.

The result for absolute beta convergence reveals no convergence among all countries together. However, there are evidences of convergence between countries that lie in similar income group. It is also seen that countries having geographical proximity does not show much evidence of convergence. The results also indicate that conditional beta convergence is prevalent among all pairs of regions in all periods under study. The saving/investment rate was found one robust factor that affects the growth rate of a country positively irrespective of model specification. The relation between growth rate and human capital is also found to be significant. Applying concept of sigma convergence, the present study indicate an increase in the income inequalities between all the countries together. However, the present study reveal some evidence of decreasing income inequalities between countries lying in similar income groups but increasing among countries having geographical proximity.

The deterministic time series approach also reveals that the rich countries are converging with rich and poor are converging with poor countries implying that there is no convergence between rich and poor countries. The results based on stochastic time series approach broadly validates the results derived from the deterministic approach. While the theoretical case of endogenous model is elegant, when it comes to empirical testing from existing data and methodology (Jones, 1995) we have more evidences against it rather than supporting. In general, this test provides evidence against a class of models in the endogenous growth literature, the AK model.

The present study concludes that income inequalities are increasing between rich and poor countries. Both time series and cross section test rejects absolute convergence hypothesis. However, conditional convergence does exit and also highlights significance of certain key determinants of growth. Finally, the study concludes that desired growth path is not automatic but policy driven. Hence, economic policies regarding trade, capital flows, technology transfer, investment, etc have a major impact on a country’s level of welfare.