

GEOMETRIC DISTRIBUTED LAG ANALYSIS FOR ECONOMIC GROWTH OF SRI LANKA

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An increase in the capacity to produce goods and services, compared from one period of time to another is known as economic growth. The economy of Sri Lanka was affected by several factors. Therefore, this study has been made to check the contributions of various macroeconomic variables (such as Consumption, Consumer Price Index, Expenditure, Foreign Direct Investment, Investment and Trade balance) on economic growth of Sri Lanka, using the geometric distributed lag model (Koyck Model) and also highlight the impacts of various macroeconomic factors to the economic growth. The analysis was carried out for the annual data from 1975 to 2014. Variance inflation factor values were used to check the correlation between the variables and found that the expenditure and the consumer price index are highly correlated variables. Therefore, in the first model expenditure was dropped and in the second model consumer price index was dropped. Form both distributed lag structures, it was found that, consumption, consumer price index, and investment have significantly positive impact on economic growth. However, it shows that the expenditure and foreign direct investment have significantly negative impact to the economic growth.

Keywords: *Sri Lanka, Economic Growth, Geometric Distributed Lag Model, Koyck Model.*