

## **Research Studies**

### **The effects of government investment shocks on private investment: Empirical evidence from the developing economy**

#### **Abstract:**

This paper evaluates the “crowding-in” or “crowding-out” effect of government investment on private investment in India by using annual data from 1960–61 to 2017–18. The existing studies do not take into account the heterogeneous effect of public investment as regards to its infrastructure and non-infrastructure components. This study uses the structural vector autoregressive (SVAR) model to evaluate the dynamic change in private investment. The paper finds that both the components of government investment negatively affect the private investment in the short-run, while the effect of infrastructure investment is not statistically significant. The finding also reveals that public investment in non-infrastructure has a positive effect on its infrastructure component. Hence, the paper concludes that public investment has a crowding-out effect on private investment in the short-run. The quarterly data analysis using the aggregated public investment confirms its negative effect on the private investment in a few quarters, which turn positive afterward.

For detailed Article **Indian Economic Review, 9 July 2019**

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