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The impact of financial development, economic growth and energy consumption on environmental degradation: Evidence from India

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Abstract

Purpose

The purpose of this paper is to investigate the impact of financial development, economic growth and energy consumption on environment degradation for Indian economy by using the time series data for the period 1971-2011.

Design/methodology/approach

The stationary properties of the variables are checked by ADF, DF-GLS, PP and Ng-Perron unit root tests. The long-run relationship is examined by implementing the Autoregressive Distributed Lag bounds testing approach to co-integration and error correction method (ECM) is applied to examine the short-run dynamics. The direction of the causality is checked by VECM framework and variance decomposition is used to predict exogenous shocks of the variables.

Findings

The empirical evidence confirms the existence of long-run relationship among the variables. Financial development appears to increase environmental degradation in India. The main contributors to environmental degradation are: economic growth, energy consumption financial development and urbanization. The results also lend support to the existence of environmental Kuznets curves for Indian economy.



domestic product with the help of financial sector by improving environmental friendly technologies from advanced economies.

Originality/value

This paper proposes to make a contribution to the existing literature through examining the relationship between financial development and environmental degradation in Indian economy during 1971-2011 by employing modern econometric techniques.

Keywords

- Financial development
- Energy consumption
- ARDL
- Economic growth
- VECM
- Environmental degradation

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