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A causal relationship between government spending and economic development: an empirical examination of the Greek economy

Nikolaos Dritsakis & Antonis Adamopoulos

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Abstract

During the last few decades, there has been a significant increase in government spending, which has been examined in the literature. This tendency has been examined in the context of the Greek economy. The extent of this tendency is examined in the time period 1980-1999. The relationship between government spending and economic development is examined using the Wagner's law. The results show that there is a positive relationship between government spending and economic development. The results also show that the extent of this tendency is significant. The results also show that the relationship between government spending and economic development is significant. The results also show that the relationship between government spending and economic development is significant.

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¹ A problem of spurious regression can occur when two time series in a regression are highly correlated whereas there is no actual relationship between them. High correlation is due to the existence of time trends in both time series (Granger and Newbold, [1974](#)).

² Calculations are made through the method of inverse interpolation, maximizing the logarithm of the likelihood function in the case of first order autoregressive procedure AR(1), the ML estimators are given through the following maximum likelihood function.

Whereas for a second order autoregressive process AR(2), the maximum likelihood function is given by the relationship:

where ρ represents the autoregression process coefficients, θ represents the estimated parameters and $R(\theta)$ is the $\eta \times \eta$ matrix of autoregression coefficients (Pesaran and Pesaran, [1998](#)).

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