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THE RELATIONSHIP BETWEEN GOVERNMENT DEBT AND REAL GDP IN IRAN (1391 - 1360)

HOSSEIN OSTADI AND SIROUS HEIDARIAN*

Department of Economic, Dehaghan Branch, Islamic Azad University, Isfahan, Iran

***Corresponding Author: E Mail: sirous_heidarian_dehkordi@yahoo.com**

ABSTRACT

The relationship between government spending and economic growth is one of the issues identified in the economic literature. This study examines the relationship between government debt and real GDP in Iran (1360 - 1391). The dependent variable of the first model is GDP and independent variables in this model are GDP with a lag, Real government spending, interest rate, exchange rate, actual reserves, actual prices of oil, the total real debt and real stock prices. The second model, the dependent variable is the real interest rate and independent variables are inflation rate minus the inflation target, output minus potential output, real effective exchange rate and real interest rate minus the exchange rate objective world. The third pattern as the dependent variable is inflation and the independent variables are, inflation expectations, output minus potential output minus real effective exchange rate and oil prices. In this study, the method of simultaneous modeling and Eviewes software to estimate the model has been used. According to the results of the estimated model and the t ratio between the actual debt and GDP in Iran (1391 - 1360) indicated in the first model that the actual cost of the state's GDP is positive and significant effect and shows that government spending contributes to economic growth that the government acts as a lever of influence.

Keywords: Real Government Debt, Gdp, Economy, Simultaneous Model

INTRODUCTION

The relationship between government spending and economic growth is one of the issues identified in the economic literature. Given that one of the problems of developing countries is the failure to achieve optimal and sustainable economic

growth and this not only causes economic problems such as recession and unemployment, but also cultural, social and political issues will also be sought. Use various tools such as government spending, however, both theory and practical experience of countries with high inflation, government spending has been proven; one of the significant issues in order to achieve economic growth is possible. On the economic rationality of government operations and activities on the daily lives of every individual in society and the impact of regulations, administrative decisions that govern any society, determines their behavior. In contrast, a macro-economic perspective, economic policies related to issues such as the allocation of resources, economic stability and the distribution of income and wealth is located. In many developing countries due to lack of financial and banking infrastructure developed. Monetary policy is less important than fiscal policy has on economic policy. Government policy measures to stabilize the economy could be a factor in reducing the gap between potential output path realized product and keep the product near the surface of its potential is realized.Thus, covering the distance created between developing countries and developed national governments can require planning. Although nowadays it seems that there is consensus among economists and others the role of governments in developing countries should not be reduced and they must do their job better than before. In contrast, some argue that the state mechanism does not work well, so states the reason being focused and paying attention too have criticized the city. On the other hand, believe that the administrative staff and other employees of public sector performance is not he and in most cases they have the wrong incentives and in many cases, their productivity is lower than expected.

Inflexible bureaucratic processes and procedures resulting inventiveness and variability are stopped.

In other words, the group of developing countries due to the current state of the rest of the world about the difference situation has been critisized. Three main reasons for the negative effect of government size on economic growth, enlargement is mentioned:

A) higher taxes and more government borrowing to finance larger government spending, reduced funding and reduced incentives for private sector investment, take risks and work productivity is higher.

B) Diminishing returns in bigger government activities, thereby allocating waste of resources in the economy.

C) The public sector than in the private sector to compensate for the slower response errors, adapt to environment changes, new information and the use of innovation also leads to economic growth.

On the other hand there is no guarantee that small an efficient implementation of the main tasks undertaken by the government itself is unable and will lead to increased economic growth. Especially in many less developed countries it is observed. In other words, the states with the efficient performance of its functions play an important role in economic development and social play, however, the increase in government spending policies and Interventions and the bad economy lead to an inefficient allocation of public resources provided and impaired functioning market system and social welfare will decrease. The dual effects of government debt and rising prosperity are creating inflation. Variables in this study are incomes and government spending, economic growth, inflation and unemployment.

2 - Research literature

2-1 - The effect of government size on GDP growth in the economy

The effect of government spending in general, can not be granted before a result. Expect a variety of costs, may have different effects. A topic examined in this study is the effect of government size on GDP. This discussion is one of the issues identified in the economic literature. Considering that our country is a developing country, due to the high dependence on state funding crude oil and, according to Nicholas Kaldvr (1957), mobilizing domestic resources, general government revenues, especially to achieve economic growth and achieving optimal and sustainable development in developing countries such as Iran, leading to increased spending and bigger government and chronic problems such as inflation and makes non-performance of government agencies.

With regard to the relationship between government spending and economic growth depends on government spending, financing sources, if this is to be financed through borrowing, the relationship between government spending and economic growth is negative, but if it is financed through taxes, the relationship between government spending and GDP growth is positive (Tabatabai and Nemato;ahi, 1389). According to Adam Smith, the founder of the classical school, necessary for the realization of a systematic process and economic growth and development in capitalism, free competition, freedom of business and not interfere in the affairs of government, the private sector economy.

According to Myrdal hand more government intervention in the economy can boost growth and government involvement in the economy, partly because it can be used to reduce social inequality and this is one of the determinants of growth, social inequality further opportunities for low-income people to use their talents to the limit (Myrdal,1960). Therefore, the appropriate size of government, debate as controversial among economists and statesmen of the classical period and theories of Adam Smith in the eighteenth century began.

What is clear is expand the size of government in recent decades has had a negative impact on economic growth. Thus, there are a strong negative correlation between government size and economic growth and development (Surrey and Keihani,1382: 210). Of course, the ideas and policies have changed significantly in the last century.

The new concept status in the era of the Straw world economy, many questions facing scientists and governments put.

Is it possible in the era of economic globalization, the government will go all out? These questions and hundreds of other questions about the role of government in the economy is the main idea. Use various tools such as government spending, however, both theory and practical experience of countries and inflationary effects of excessive size of government established, one of the significant issues in order to achieve economic growth is possible (Tabatabai and Nematolahi, 1389: 228).

The impact of government debt on economic growth

Allocation, distribution and stabilization of the economic functions of the state are known. Budget is the most important tool to achieve economic stability) objectives are such as economic growth, full employment and price stability. To achieve economic stability that will lead to macroeconomic balance, states should focus its attention to the allocation of funds. In developing countries, the lack of private investment, shortage of supply and increased government spending relative to income deficit is the result of politics. This policy should be coordinated with total supply, otherwise it will not only relieve depression, and it will bring inflation and would have adverse effects on macroeconomic variables. The government should increase its spending part of the complement private investment spending, active participation of the private sector in the economy to provide. Thus, the components of aggregate demand that such policies can influence are in the budget deficit. This type of policy, the deficit, now in developing countries is seen

as an important policy tool. Keynes and his supporters have such a policy in the economy. Keynesians believe that the expansionary effects of the imbalances in the budget deficit, but the macro will move towards equilibrium. Thus, macroeconomic balance the budget balances in favor (Jafari Samimi, 1383:25).

Different schools of economists always about balancing the budget and macroeconomic performance has been controversial. So the budget and macroeconomic performance can not always be conclusive answer the deficit on macroeconomic variables, especially economic growth, the effect is positive or negative. Because the economic impacts and Budget and how come there due to deficit and how to finance it can't speak definitly and will depend on macroeconomic conditions.

Background Investigations

Yakyta (2014), in a study entitled "Sustainability of public debt, public capital formation and Endogenous Growth", to examine this issue is addressed. His findings indicate that the stability of the government deficit, a threshold level of public debt (according to public funds) exists. If the initial public debt is more Azhd threshold, the state can no longer maintain its budget deficit; while the initial public debt is below this threshold, the government can be a positive proportion of GDP is bad public.

Panyza (2013) in a study titled "Public debt and economic growth in advanced economies", a new literature review deals relationships between public debt and economic growth in advanced economies. The main findings of this study indicate that theoretical models have had mixed results. Whether high levels of public debt have a negative effect on economic growth if one question remaining while many papers have found a negative correlation between debt and economic growth, the findings show no strong relationship between public debt and economic growth in advanced economies has been observed.

Bayvm, Vstpal and routers (2013) in a study entitled "Debt and economic growth: new evidence from the euro area", to investigate this issue, the debt crisis in the euro Logic pay. In this regard, using panel data econometrics, non-linear effect of debt on growth for the 12-country euro zone is paid over the period 2010-1990. However, this effect gradually decreases and reaches zero. This occurs when the debt ratio to about 67 percent. When the debt ratio is about 95 per cent, debt has a negative effect on economic growth.

Vastpal and routers (2012) in a study entitled "The effect of government debt on economic growth and ways of its effect:

empirical evidence from the euro area ", using data from 12 countries in the euro area over the period 2010-1970 to deal with this issue. The findings indicate a nonlinear relationship between debt and economic growth. The channels through debt impact on economic growth, including rates of private savings, public investment and productivity of all factors of production.

Fatyma, A. and Rahman (2012) in a study to investigate the relationship between budget deficits and economic growth in Pakistan period (2009-1978) are discussed. In this study to identify the relationship between budget deficits and long-term economic growth discussed by using ordinary least squares model. The findings of this study indicate Asrksry budget on Pakistan's economic growth in the long term, is negative and significant.

Chang Jiang (2011) in a study entitled "The effects of public debt on GDP per capita in Latin America and the Caribbean", using data from 21 developing countries in Latin America and the Caribbean during the period 2006-1992 have been paid to this issue. Experimental results show that the threshold value of 88/32% and 89/55% of this relationship exists. A threshold value of the two countries is divided into three groups. In between these two values, the debt ratio has a positive effect on GDP per capita of the country while much smaller than both a threshold value, debt has a negative impact on economic growth have been investigated.

Kmyjany and Hramy (1391) an article entitled "Estimating the role of the budget deficit."

Expressed, in some countries, such as Iran, government has an important role in the management of activities and doing a lot of construction activities and the care of the state. Government funding is needed to carry out their duties that may be inaccessible due to the realization of anticipated revenues or increasing the budget deficit faced by the expenses. The main question of this paper is to determine the impact of such subsidies, inflation, tax revenues, oil revenues, government spending, economic growth, wars, elections, unemployment and the deficit of the state budget. Effects of selected variables based on Keynesian theory, the theory of optimal tax theory, random borrow, Public Choice Theory is. In the present study, the difference between deficit spending government revenues is defined as dependent variables into the model. To test these variables influence the statistics between the years 87-1358 and to test how these variables impact on the deficit of OLS is used. These results indicate that the negative effect of oil revenues, tax revenues, economic growth, budget deficit positive

effect of state subsidies and public expenditure on the budget deficit.

But in all countries, including developing countries in the form of its various industrial shows. The state of the factors affecting prices as well as economic stability. In this paper, in order to explain the relationship between the government deficit, inflation and economic growth based on the theoretical model, the economic realities previous studies of the relationship of six general level of prices, government spending, government revenues from oil, money and real GDP and inflation expectations has been a defining equation. These models use annual data for the period 1390-1355 a system of simultaneous equations is estimated using two-stage least squares. The results of the study imply that the public deficit to swell and make recession and slow economic growth in the country. Moreover, Iran is a country dependent on revenues from oil exports. Accordingly, policy makers and planners in the public sector should be independent of oil revenues, properly adjusted annual bills absorbent reform tax and budget and the size of the public sector to consider miniaturization.

Research model and study variables

Model used in this study are as follows:

$$Y = f(Y, I, G, R, S, \hat{E}, O_p, D, F)$$
$$I = f(\pi - \alpha, Y - \beta, \hat{E} - \delta, I^*)$$
$$\pi = \pi^e + \lambda(Y - \beta) - \theta\hat{E} + \rho O_p)$$

The simultaneous equation system approach is used.

The dependent variable of the first model: GDP and independent variables in this model are GDP lag Real government spending, real government spending, interest rate, exchange rate, real exchange reserves, the real price of oil, the total real debt, real stock prices. The second model, the dependent variable is the real interest rate and independent variables are inflation rate minus the inflation target, output minus potential output, real effective exchange rate and real interest rate minus the exchange rate objective world. The third pattern as the dependent variable and the independent variables are inflation, inflation expectations, and output minus potential output minus real effective exchange rate and oil prices. In this study, the disposal of time-series data for the years 1360 to 1390 and software is Eviewes to estimate the model. The statistics and information has been extracted from the website of the World Bank and the Central Bank's website.

Model Estimate

Due to issues related to the detection of simultaneous equations is characterized by the above equations is clearly defined and specified and by using the above equation

can not be estimated by OLS, therefore, alternative methods such as 2SLS is used. Given the following table, you can see that the absolute value of the ADF statistic has been calculated for the variables listed in Table 1 of the absolute value of the difference is greater than the critical parameters, so these variables are static, ie a stacking can be order I (1) . Thus, once a ¬ subtraction of a single variable roots, Dickey Fuller test statistic greater than the critical and relevant static variable ¬ to ¬ prove it. All variables except the interest rate is stationary with a difference.

Iran's economy has been facing budget deficits in most years.

And this for several reasons, such as reduced oil revenues and government spending has increased with the exception of the period between 75-1373 and 1380 state budget deficit but the deficit has increased from 1381 to 1388.

Figure 1 shows the change process.

According to the coefficient of determination in simultaneous equation model showed a good fit to the data pattern and Watson statistic indicates the absence of autocorrelation is the camera.

The result of the estimated model is as follows:

A percentage change in GDP per interrupt, the level of 0/125 423% increase in GDP is created.

For every one percent change in real government expenditure, the level of 0/187 577% increases in GDP is created.

For every one percent change in real government spending, the level of 0/213 596% increases in GDP is created.

For every one percent change in interest rates, the -0/125468% Reduction in the level of GDP is created.

For every one percent change in the effective exchange rate, the level of 0/095 624% increases in GDP is created.

For every one percent change in the real exchange reserves, the level of 0/12 652% increases in GDP is created.

For every one percent change in the real price of oil, the level of 0/256 381% increase in GDP is created.

For every one percent change in total real debt, the -0/245163% Reduction in the level of GDP is created.

For every one percent change in real stock prices, the level of 0/512 313% increases in GDP is created.

For every one percent change in the inflation rate minus the inflation target, the level of 0/000 213% increase in the real interest rate is established.

For every one percent change in output minus potential output, the level of 0/138 826% increase in the real interest rate is established.

For every one percent change in the real effective exchange rate minus the exchange rate target, the level of 0/159 794% increase in the real interest rate is established.

For every one percent change in world real interest rate, the level of 0/512 648% increases in the real interest rate is established.

For every one percent change in the expected inflation rate, the level of 0/125 862% increases in the inflation rate is established.

For every one percent change in output minus potential output minus the effective exchange rate, the level of 0/169 081% increase in the inflation rate is established.

For every one percent change in real oil prices, the level of 0/422 350% increases in the inflation rate is established.

Table 1: Results of stationary variables

Result	Prob	ADF(t-Statistic)	Variables
I(1)	**0.0280**	**-3.219159**	**GDP**
I(1)	**0.0043**	**-4.602441**	**Real expenses of Government**
I(1)	**0.0001**	**-5.626686**	**Effective Real Exchange**
I(1)	**0.0001**	**-5.490915**	**real price of oil**
I(1)	**0.0001**	**-5.817833**	**Total Real Debt**
I(1)	**0.0001**	**-9.221208**	**Stock Price**
I(1)	**0.0001**	**-8.116850**	**inflation rate minus the inflation target**
I(1)	**0.0003**	**-4.916369**	**in the real effective exchange rate minus the xchange rate target**
I(1)	**0.0046**	**-3.955888**	**output minus potential output**
I(1)	**0.0451**	**-3.002000**	**Interst rate**

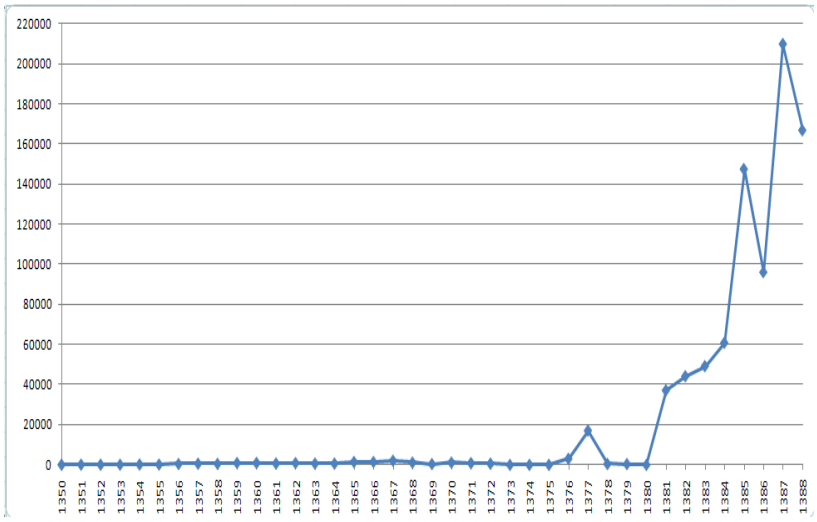

Figure 1: The budget deficit

Then, after considering the following model is estimated Manayy variables:

Table 2 Estimates of the research model

Prob	Stat t	SE	Coef	
0/0028	3/080626	0/040713	0/125423	Constant
0/0012	3/356616	0/169963	0/570502	GDP(-1)
0/0382	2/497646	0/075102	0/187577	Real expenses of Government
0/0547	1/951310	0/109463	0/213596	Real Cost of Government
0/0054	-2/861405	0/043848	-0/125468	Interst rate
0/0291	2/222480	0/043026	0/095624	Effective Real Exchange
0/0745	1/807149	0/070011	0/12652	Actual reserves
0/0745	1/807261	0/141862	0/256381	real price of oil
0/0326	-2/174777	0/11273	-0/245163	Total Real Debt
0/0067	4/116068	0/124467	0/512313	Stock Price
2/042536	DW Stat	0/986656	R^2	
0/0001	-24/29851	0/036666	-0/890921	Constant
0/0508	2/584088	8/24E-05	0/000213	inflation rate minus the inflation target
0/0001	4/163532	0/033343	0/138826	output minus potential output
0/0509	1/982028	0/080621	0/159794	in the real effective exchange rae minus the exchange rate target
0/6037	0/521107	0/983767	0/512648	World real Interst rate
1/810300	DW Stat	0/958003	R^2	
0/0309	-2/214233	1/023297	-2/265818	Constant
0/0459	1/984692	0/063416	0/125862	Expeted inflation rate
0/0008	3/495912	0/048365	0/169081	output minus potential output minus the real effective exchange rate
0/0001	7/500806	0/056307	0/422350	real price of oil
1/810300	DW Stat	0/684883	R^2	

CONCLUSIONS AND PROPOSALS

Results show that the first model, GDP is positive and significant impact on GDP is interrupted. This means that the production of previous years and the economic situation over the last few years this has an impact on production. In fact, the economic situation, the economic outlook for the next show. The results show that the first model the actual cost of the state's GDP is positive and significant effect and shows that government spending contributes to economic growth and the government acts as a lever of influence. Results show that the first model of effective exchange rate has a significant positive effect on GDP this indicates an increase of the exchange rate to boost exports and economic growth in the country.

The results show that in the first model, the real price of oil has a significant positive effect on GDP and this suggests that the economy is dependent on oil prices and exports. First, the overall pattern of results suggests that the actual debt to GDP has a significant negative effect, the general government debt and deficit; the government can have destructive effects of economic growth. The first pattern of results

suggests that the actual stock price has a significant positive effect on GDP.

In fact, financial market development and growth stocks can lead to increased production in the country.

The second pattern of results suggests that the independent variables are positive and significant effect on the inflation rate minus the inflation target, output minus potential output is positive and significant impact, real effective exchange rate minus a positive and significant effect of exchange rate target and global real interest rate is positive and significant effect on the dependent variable models have the real interest rate.

These results can be analyzed as follows:

Inflation rate minus the inflation rate, which indicates that the target is unexpected inflation, will be cumulative effect on the domestic interest rate.

On the other hand the real effective exchange rate minus the exchange rate target the gap is indicative exchange rate and currency fluctuations and exchange rate fluctuations could increase interest rates. Output minus potential output, which represents the country's output gap is cumulative effect of the rates within the country.

The third pattern of results suggests that independent variables, the expected inflation rate, output minus potential output minus the real effective exchange rate exchange rate target and real oil prices are all positive and significant effect on the rate of inflation in the country.

This means that expected inflation is one of the main causes of inflation and public expectations could significantly affect inflation in the country. Output gap and exchange rate gaps are swelling the country. Oil prices, according to the Dutch disease can have a positive effect on inflation in the country.

According to the research results can be offered the following suggestions:

- Based on the results of the first model that shows GDP on a hiatus, government real expenditure on GDP is positive and significant effect, government policies need to be developed based on a positive outlook on the economy.
- Also the results of the first model that shows the real cost of government have a significant positive effect on GDP are advised that the government because of its effectiveness, a lever for economic growth would increase their costs.
- According to the results of the first pattern that suggests effective exchange rate has a significant positive effect on GDP, central banks use foreign policy to support

export development and production is advised.

- Also according to the results of the first model indicates that the real price of oil on GDP has a significant positive effect on the use of economic policies to reduce the volatility of oil is recommended. In fact, oil prices could act as an exogenous variable, economic growth can have a damaging effect.
- According to the results of the first pattern that suggests actual debt generally has a significant negative effect on GDP, policies based on the general government deficit and debt control is recommended.
- Also according to the results of the first model and the actual stock price on GDP, In fact, the effect is positive and significant financial market development and growth stocks can lead to increased production in the country, based on stock market development and investment policies support and it will lead to a rebound in GDP.
- According to the results of the second model shows the independent variable is the target inflation rate minus the inflation rate is positive and significant effect, the dependent variable in the model, the real interest rate, policies to reduce inflation and unexpected inflation rate is proposed.
- According to the results of the second model the show independent variable on the dependent variable is positive and significant effect on output minus potential output model, the real interest rate, and policies based on increasing production and reducing the output gap is suggested.
- According to the results of the second model shows the independent variable is the real effective exchange rate minus the exchange rate target positive and significant effect on the dependent variable models have the real interest rate, policies to reduce currency exchange rate fluctuations and reduce the gap in order to reduce the interest rate is recommended.
- According to the results of the second model shows taught, after global real interest rate is positive and significant effect on the dependent variable model, the real interest rate, is proposed to reduce the volatility of interest rates due to global measures devised.
- According to the results, which implies it is the third model the independent variable is positive and

significant effect on the expected inflation rate inflation rate in the country, policies based on inflation expectations and deal properly with people's expectations and accurate notification is recommended.

- According to the results, which implies it is the third model the independent variable is positive and significant effect on output minus potential output, inflation in the country, policies based on increasing production and reducing the output gap is suggested.
- According to the results of the third model, which suggests the independent variable is the real effective exchange rate is positive and significant effect on the target exchange rate minus the inflation rate in the country, policies to reduce exchange rate volatility and exchange offer will reduce the gap.
- According to the results, which imply it is the third model the independent variable is positive and significant effect on real oil price inflation in the country, recommended to control the negative effects of oil prices on inflation, foreign exchange reserves to reduce the impact of fluctuations in oil prices should be used.

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