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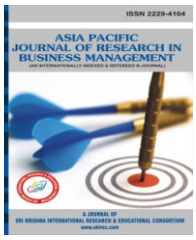

NEXUS BETWEEN AVIATION DEMAND AND ECONOMIC GROWTH IN INDIA: COINTEGRATION EQUATION ESTIMATION

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ABSTRACT

The main purpose of the paper is to empirically examine the aviation-led growth hypothesis for India by testing causality between aviation and economic growth. We resort to econometric tests such as unit root tests and test of co integration purposed by Johansen (1988). Fully Modified OLS, Dynamic OLS and Conical Co integration Regression are used to estimate the co integration equation for time span of 1970 to 2012. Empirical results reveal the existence of relationship between aviation demand and economic growth. Graphic methods such as Cholesky Impulse Response function (both accumulated and non-accumulated) and variance decomposition have also been applied to render the analysis rigorous. The positive contribution of aviation demand to economic growth is similar in all three estimation techniques of co integration equation. Findings help in lime-lighting the importance of aviation industry in economic growth for a developing country like India.

KEY WORDS: Air Transportation, Economic Growth, Co integration, Unit Root Tests, Fully Modified Ordinary Least Square (FMOLS), Dynamic Ordinary Least Square (DOLS), Conical Co integration Regression (CCR), Aviation Multiplier

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