ABSTRACT

This study examines the relationship between health care expenditure (HCE) and economic growth and direction of causality between HCE and economic growth is SAARC countries, using Panel causality analysis for the period of 1995-2012. Labor force, literacy rate, and elderly population of age 65 and above are used as independent variables, as the variables are considered indicators of human and physical capitals. Panel unit root tests are used for examining the unit root in the data. Pedroni (1997) and Kao (1999) Panel co-integration tests are applied for investigating co-integration. To obtain long run parameters, Dynamic Ordinary Least Squares (DOLS) estimation technique is used. For investigating short run and long run causality between HCE and GDP per capita by controlling other variables, Seemingly Unrelated Regression (SURE) model is used. To examine the direction of causality between HCE and GDP per capita a new technique developed by Demtrescu and Hurlin (2012) is used. The study investigates long run significant positive relationship between HCE and GDP per capita. Income is determinant of health care expenditure, and income elasticity is less than one implies that health care expenditure is a necessary good for the South Asian countries. Unidirectional causality running from GDP per capita to HCE is confirmed by the results. It is also investigated from the results that labor force, education, and elderly population causes GDP per capita and HCE in bi-directions.