

Energy Consumption and Economic Growth: Assessing the Evidence from Sri Lanka

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Abstract

This study attempts to shed light into the empirical relationship between energy consumption and economic growth in Sri Lanka (1981-2012) employing the vector error – correction model estimation (VECM). The vector specification includes energy consumption, real GDP and price developments, and the latter was taken to represent a measure of economic efficiency. The empirical evidence suggest that there is a long – run relationship among the three variables, supporting the endogeneity of energy consumption and real output. These findings suggest important policy implications, since the adoption of suitable structural policies aiming at improving economic efficiency can induce energy consumption without impeding economic growth.

Keywords: energy consumption, economic growth and Vector error –correction model (VECM)

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