**Near East University**

**2020-2021 Spring Semester**

**ECO604/ECO503**

**Assignment 1**

The economic growth of the country is influenced by different factors. These factors vary from country to country. Some of the factors which fluctuate the economic growth of the country are common in all the countries either these are developed countries or underdeveloped countries as well. Different researches have already been conducted by different researchers in different countries and they used different variables which have an impact on the economic growth of the country as well. This question used five independent variables named Inflation Rate (INF)[[1]](#footnote-1), FDI[[2]](#footnote-2), Literacy Rate (LR)[[3]](#footnote-3), exchange rate (ER)[[4]](#footnote-4) , and interest (INT)[[5]](#footnote-5) which become the reason for bringing change in economic growth (GR)[[6]](#footnote-6) of the selected country (You are free to choose a country as a sample case that data is available for it between 1990 to 2018).

GRt = β0 + β1 INFt + β2 FDIt + β3 LRt + β4 ERt + β5 INTt

1. Prepare the clean data set as an excel file for a country from 1990 to 2018. (14 points)

Upload the data on the EViews file, then;

1. Graph the variables separately. (12 points)
2. Develop the unit root test for all variables separately. (12 points)
3. Run the cointegration test and explain it. (10 points)
4. Run the OLS approach and interpret all parameters. (10 points)
5. Run the related diagnostic tests for Normality, Heteroskedasticity, Serial correlation, and Model specification and interpret them well. (32 points)
6. Interpret the stability of the parameters. (10 points)

* You should submit an excel file of clean data (part a) and a word file that includes parts b to g.

1. Inflation, GDP deflator (annual %) [↑](#footnote-ref-1)
2. Foreign direct investment, net outflows (% of GDP) [↑](#footnote-ref-2)
3. Literacy rate, adult total (% of people ages 15 and above) [↑](#footnote-ref-3)
4. Real effective exchange rate index (2010 = 100) [↑](#footnote-ref-4)
5. Real interest rate (%) [↑](#footnote-ref-5)
6. GDP growth (annual %) [↑](#footnote-ref-6)