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TESTING THE SAVING-INVESTMENT RELATIONSHIP FOR THE COUNTRY GROUPS CLASSIFIED BY INCOME LEVELS

Abstract:

After the 1980s capital mobility has increased along with the globalization process in the world economy. In particular countries that suffering from savings gap are trying to attract foreign capital to finance investments, to reduce budget deficits and to deal with the current account deficit problem. However, international mobility of capital has also lead to global instabilities and its magnitude became enough to throw any country's economy into grave crisis. Therefore, regular capital flows are extremely important for balanced growth. For this reason in the literature the capital mobility is examined through saving-investment relationship. This study analyzes the relationship between saving and investment for 1980-2014 period based on country groups' data which is aggregated according to their development level. For this purpose, the analyze has been performed by using Johansen Co-Integration and Vector Error Correction Models within the framework of the Feldstein-Horioka Puzzle hypothesis which is accepted in the literature as a robust tool for examining short and long term saving-investment relationship. Our results suggest that capital mobility vary among country groups with the income level.

Keywords:

Capital mobility, Saving and Investment, Feldstein-Horioka Puzzle, Cointegration Tests

JEL Classification: C22, E20, F21