Abstract

The following thesis estimates the respective contribution of physical capital stock, human capital, institutions, geography and international trade in determining the income levels across the world using recently developed instruments for institutions and international trade. The study estimates the contribution of these variables to economic growth using an extended sample of one sixty countries compared to Rodrik et al (2000), who take a sample of one twenty countries. Moreover it also employs seven different institutional variables and nine trade policy variables unlike the previous studies. It also includes the variables of physical and human capital that the previous studies on institutions were missing. The major conclusions of the study are that the institutions matter for growth but the contribution of institutions to economic growth goes down as the human capital variable is included in the analysis. Similarly, unlike the previous studies on the same topic, our results show that the trade integration/policy also matters for promoting economic growth. We further reach on the conclusion that Liberal trade policy should be a part and parcel of broader set of policy and institutional reforms. And it will be a shortsighted agenda to recommend only institutional development or the economic integration as a panacea to overcome low growth rates. Both of these policies should go hand in hand to reach desirable policy outcomes.