

## The Simultaneous Effects of Economic Growth, Foreign Direct Investment and Government Policies in Iranian Economy

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### Abstract

The literature on economic growth and development shows that domestic and foreign investment have been one of the most important pillars of economic growth. On the other hand, empirical studies often point to the positive impact of foreign direct investment (FDI) on economic growth, especially in less developed countries. This paper, based on the Simultaneous Equations System approach, examines the interrelationships between economic growth, FDI, and government policies along with other important macroeconomic variables. The results show that there is a significant positive correlation between FDI changes and economic growth in Iranian economy during the period of 1371-96. The government's expansionary fiscal policy in the form of increased infrastructure spending and lower tax revenues has had a significant positive impact on GDP and FDI changes. The human capital index also has a positive and significant effect on FDI changes, but an increase in the nominal exchange rate reduces FDI inflows into the economy. Finally, the dummy variable of the sanctions of 2012 has had a significant negative impact on GDP and FDI changes.

**Keywords:** Economic Growth, Foreign Direct Investment (FDI), Government Policy, Simultaneous Equation System, Three-Stage Least Squares Method (3SLS).

**JEL Classification:** O10, H50, E23, C63.

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