

Analysis of correlation between Consumption and Revenue in Rwandan Economy (Econometric Approach)

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Abstract

This study was designed to make analysis of correlation between consumption and revenue in Rwandan Economy; but for having a deep analysis; other macroeconomic variables have been included such as: consumer price index and interest rate. The econometric approach has been used for dissecting those macroeconomic variables, and various tools have been applied for avoiding the problem of spurious, nonsense regression. After running the model, the different results have been shown. Considering the model as whole, the correlation is high, R^2 is 98%. The regression has provided the long-run relation between those macroeconomic variables, but the error correction model has not provided any information. Meaning that the revenue explains at very high rate the consumption, which is the core stone of the sustained economy. Without a deep and safe analysis of the macroeconomic variables, our economy will not have a trend to follow.

Key words: Disposable income, Consumer price index, Marginal propensity to consume, and Interest rate.