



**SDI Review Form 1.6**

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| Journal Name:            | <b><u>British Journal of Economics, Management &amp; Trade</u></b>                                     |
| Manuscript Number:       | <b>2013_BJEMT_8612</b>                                                                                 |
| Title of the Manuscript: | <b>Foreign direct inflows and Economic growth nexus in Kenya: cointegration and causality analysis</b> |
| Type of the Article      |                                                                                                        |

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This journal's peer review policy states that **NO** manuscript should be rejected only on the basis of '**lack of Novelty**', provided the manuscript is scientifically robust and technically sound.

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**PART 1: Review Comments**

|                                            | <b>Reviewer's comment</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | <b>Author's comment</b> (if agreed with reviewer, correct the manuscript and highlight that part in the manuscript. It is mandatory that authors should write his/her feedback here)                                                                                                                                                                                                                                                                                                                                                         |
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| <b><u>Compulsory</u></b> REVISION comments | <p>Major Problems:</p> <ol style="list-style-type: none"> <li>1. Although the paper never explicitly states how much data they have, an examination of the Figures on page 4 leads me to conclude that the paper uses quarterly data for 11 years. This implies that there are only 44 observations. The paper also indicates that the data was first differenced to eliminate autocorrelation; this would reduce the data set to 43 observations. On page 8, the authors write, "a lag length of four was chosen." This seems to imply that only 39 observations were used. Furthermore, the figures on pages 2 and 4 show that the international financial crisis that started in 2008 affected the data. After 2008 there are only 16 quarterly observations, and between 2000 and 2007 there are only 32 observations (and this does not consider the effects of first differencing and lags). This paper is based on too little data. For a study such as this, I would not feel comfortable with anything less than 50 observations for a time</li> </ol> | <p><b>In the revised paper we used annual data for 43 years from 1970 to 2013. Data on FDI is not available for Kenya before 1970, but we are confident that the data series met the objectives of the study</b></p> <p>We have totally changed the methodological approach, there is no sampling procedure</p> <p>Long run relationship was handled using the cointegrating model and short run model was captured by VECM</p> <p>The model has been changed to VAR framework</p> <p>See line 182 on the variables-US\$ constant prices</p> |



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|  | <p>period in which there were no obvious structural breaks (like the financial crisis).</p> <p>2. On page 2, the authors say that they use “purposive sampling.” Since they say “sampling” I wonder if they used the maximum amount of data available. They say that they used the most recent data series available, but did they adjust the starting date of that data until they got the results they wanted to get?</p> <p>3. The paper does not clearly state how the authors differentiate between “short run” and “long run” effects (and how this affects the number of observations used). Furthermore, the paper is very confusing on the issue of “short run” versus “long run.” For example, the Abstract says, “FDI didn’t exert significant effect in the <b>short run</b> .... Based on these [short run] findings the study concludes that FDI has no effect on economic growth in the <b>long run.</b>” Furthermore, the Abstract says, “It was found that FPI ... [has] a positive and robust influence on economic growth in the short run.” Yet the next sentence says, “FPI ... displayed positive and insignificant effect on economic growth in the short run.” What do the authors mean by “robust” and how can an effect be</p> |  |
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|  | <p>“robust” if it is statistically insignificant?</p> <p>4. The model that the authors give is on page 3. This model uses only three independent variables – FDI, FPI, and AID – to explain real GDP. Do the authors think that government spending, the money supply, and the exchange rate do not affect real GDP? This study has major problems with omitted variables. The authors seem to be aware of this because on page 6 they write, “the model used has left out important components of explaining GDP.” Are the authors aware that omitting important independent variables ruins all statistics and coefficients?</p> <p>5. The author’s use real GDP (GDP corrected for inflation) as the dependent variable and FDI, FPI, and AID as the independent variables. The authors do not indicate if FDI, FPI, and AID are in Kenya’s currency or in US dollars. Furthermore, they do not indicate if FDI, FPI, and AID have been corrected for inflation or not. If they have been corrected for inflation, then how was this correction done? Specifically, did they use the GDP deflator or price indices that are specific for FDI, FPI, and AID? If they did not correct FDI, FPI, and AID for inflation, then there could be</p> |  |
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|  | problems regressing a dependent variable that is corrected for inflation on independent variables that are not. |  |
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| <b><u>Minor</u></b> REVISION comments   | <p>1. Some minor things that need to be fixed include:</p> <ul style="list-style-type: none"><li>a. In the Abstract, the authors use “FPI” without spelling out that it is “foreign portfolio investment. When they do the same thing with “AID” it is very misleading because the reader thinks that “AID” refers to foreign aid, whereas the authors use it to mean “additional foreign debt.”</li><li>b. In the Abstract, “FDI has no effect” should be “FDI does not have a statistically significant effect.”</li></ul> <p>On the top of page 3, the authors say, “This study adopted causal relationship research design.” However, regression analysis only shows correlation, it cannot show causation. This should be made clear.</p> |  |
| <b><u>Optional/General</u></b> comments | <p>There are some problems with the English. Specifically, the word “the” is misused in multiple places. I know that figuring out when to use the word “the” and when not to is very hard for non-native speakers. So I sympathize.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |  |



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|  | <p>If the authors picked the start of their data in order to get results they like, then an ethical issue is involved. However, I do not know if they did this. Under "Research Methodology" they say that they used "purposive sampling" which makes me wonder. More importantly, it would be unethical for a journal to publish an article that has the problems that this paper has because the results given are not reliable and publishing them could mislead someone.</p> |  |
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