



SDI FINAL EVALUATION FORM 1.1

PART 1:

Journal Name:	British Journal of Economics, Management & Trade
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Title of the Manuscript:	Determinants of Economic Growth in Laos

PART 2:

FINAL EVALUATOR'S comments on revised paper (if any)	Authors' response to final evaluator's comments
It seems the author has tried to address some of my concerns and tried to incorporate some of my suggestions. But the model still suffers from specification error. I again suggest that the author include the foreign aid variable in the first empirical model (equation 5)* and get rid of equations 6 and 7. The effect of foreign aid on economic growth should be tested in the presence of trade openness (together with the effect of trade openness variable), not in isolation. After all, foreign aid is being granted to an open economy not to a closed economy as equation 6 implies. If the author is just interested in the relationship between economic growth and foreign aid, he must conduct a correlation analysis not regression analysis. I don't also see the link between the theoretical model and the empirical model specified in equation 5. I suggest that the author establish the link between the theoretical model and the empirical model, and test the variables specified in the theoretical model. The basic theoretical equation, equation 1, can be specified as: $Y_t = A_t f(K_t, L_t, Aid, OPN, FDI, GoEx, DI, D)$ This equation then can be specified in an appropriate linear regression form, and tested. However, before performing the actual regression analysis, the author must check the degree of multicollinearity between Aid and FDI, Aid and GoEx, DI and GoEx, and FDI and DI. If severe multicollinearity exists between two exogenous variables as evidenced by the correlation coefficient, then the variables shouldn't enter together when estimating the model. For the regression results to be valid, the exogenous variables must be uncorrelated. Once the model has been tested for multicollinearity, the nature of the relationship and the statistical significance of each exogenous variable with economic growth can be tested. *The equation numbering jumps from equation 1 to equation 3. I don't know what equation 2 is. The author also still states the values in the parentheses are t-values while they are in fact the standard errors of the estimates).	Yes, I do agree with reviewer that foreign aid is occurred in open economy, not a closed one. I have combined all variable in one equation, and using the check the degree of multicollinearity between Aid and FDI, Aid and GoEx, DI and GoEx, and FDI and DI, for example in regression 3 and regression 4, there is degree of multicollinearity between DI and GoEx, so I separated in two regressions (3&4). The model 2 is from in the paragraph above model 3 and model 4. The change of income per capita (Y) between 2000 and 2001, we can generate this function: $Y_{2001} = Y_{2001} - Y_{2000} \quad (2)$