This paper examines the dynamic linkages between economic growth, fixed investment, and household consumption in Malaysia using a structural vector error correction model (SVECM) approach. The empirical results revealed that household consumption and fixed investment are significant in influencing the output growth in the short run. This finding tends to support the alternative view of growth hypothesis, namely fixed investment-led growth, and household consumption-led growth in the short run. In the long run, there is no significant effect of fixed investment and household consumption on growth. However, in the long run, there is a permanent effect of economic growth on household consumption and investment. This empirical finding implies that a demand side policy (for example through fiscal or monetary policy) which can affect the household consumption and investment is only effective to stimulate the economic activity in the short run. Thus a supply side policy would be needed to stimulate the economy in the long run.

**Keywords:** Economic growth, fixed investment, consumption, SVECM

1. **INTRODUCTION**

The Keynesian macroeconomic model stipulates that household consumption and fixed investment play an important role in influencing economic growth by stimulating the aggregate expenditure. Therefore, the policy maker should implement an appropriate policy (for example, fiscal and monetary policy) in order to encourage household consumption and fixed investment spending. In the meantime, household consumption and fixed investment are cyclical components, in which they change according to the business cycle conditions. For example, according to Keynesian model, aggregate consumption is volatile rather than smooth because any changes in the current income is reflected in a change in consumption.