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Effects of foreign private capital inflows on macroeconomic variables in Tanzania

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The study examines the effects of foreign private capital inflows (FPI) on macroeconomic variables in Tanzania covering the period 1980 to 2014. It also examines the composition and trends of capital inflows into Tanzania. Using the Autoregressive Distributive Lags (ARDL) approach, this study specifically examines effects of foreign private capital inflows (FPI) on macroeconomic variables in Tanzania. Foreign Direct Investment (FDI) and Foreign Portfolio Investment (PORT) are the measures of foreign private capital inflows. The macroeconomic variables used are such as real exchange rate (RER), money supply (MS) and foreign exchange reserve (FOREX). The key observations that appear from the ARDL analysis are that an increase in foreign private capital inflows results in an appreciation in the real exchange rate, growth of the money supply in the long run and accumulation of foreign exchange reserve in the long run. Further, the results reveal the presence of the short run and long run equilibrium relationships between the macroeconomic variables and foreign private capital inflows.