

THE INTERNATIONAL MONETARY SYSTEM : STRUCTURE,  
DEVELOPMENT AND PROSPECTS

BY

ZAKARYA AHMAD

SEPTEMBER 2003

## **ACKNOWLEDGEMENT**

We wish to express our sincere gratitude to University Technology Mara for giving us the grant and opportunity to pursue this research work. Also to the Bureau Research and Consultancy, Shah Alam for their diligent effort and close supervision as well as constant encouragement enables us to complete this work. We are grateful to Dr. Zulkornain Yusop for his helpful and valuable notations on the statistical comments on the data analysis. Our sincere appreciation is also owed to the academic and administrative staff of the University Technology Mara, Campus Sg.Petani, Kedah. Especially to Prof Madya Dr. Hajjah Zaliha Hj. Hussin (Director), Pn Zauyah Abd.Razak (Vice Director) and En. Anuar Haji Wahab (Coordinator of Research) who have offered us superb administrative assistant during our research works.

# LIST OF CONTENTS

ABSTRACT	
LIST OF TABLES	
LIST OF FIGURES	
ACKNOWLEDGEMENT	

	Page
<b>CHAPTER 1 INTRODUCTION</b>	
1.1 Overview	1
1.2 Statement of the Problem	3
1.3 Objectives of the Study	5
1.4 Hypotheses	6
1.5 Scope of Study and Methodology	7
1.6 Contribution to New Knowledge	8
1.7 Thesis Organization	9
 <b>CHAPTER 2 INTERNATIONAL MONETARY SYSTEM</b>	
2.1 The Bretton Woods System	10
2.2 The European Integration	12
2.3 The Euro Dollar market	13
2.4 SDR	14
2.5 The Breakdown	15
2.6 Oil Shock	18
2.7 The Jamaican Conference	19
2.8 The Second Amendment	19
2.9 The Snake	21
2.10 The Second Oil Shock	21
2.11 Plaza Louvre	22
2.12 Currency Turmoil	24
2.13 The Present System	24
 <b>CHAPTER 3 THEORETICAL LITERATURE</b>	
3.1 Conceptual Issues	25
 <b>CHAPTER 4 EMPIRICAL LITERATURE</b>	
4.1 Overview	29
 <b>CHAPTER 5 RESEARCH METHODOLOGY</b>	
5.1 Introduction	31
5.2 Statement of Hypotheses	31
5.3 Statistical Technique	
5.3.1 Unit Root Test	32
5.3.2 Cointegration	34
5.3.3 Granger Causality	38
5.4 Data Transformation	41
5.5 Stationary versus Non Stationary	41

5.6	The Data	43
5.7	Summary	43

**CHAPTER 6 RESULTS OF EMPIRICAL ANALYSIS**

6.1	Results	42
-----	---------	----

**CHAPTER 7 SUMMARY AND POLICY IMPLICATION**

7.1	Summary and Discussion	51
7.2	Policy Implications	52
BIBLIOGRAPHY		53

## ABSTRACT

*This research attempts to explore the evolution, issues and concerns of the present international monetary system. Looking at the previous literatures of the American Economic Association reveals that in almost every year, highlight on the agenda has been the question of reform. Interest in reform has increased in recent years, due to succession of crises that began with the European exchange rate mechanism (ERM) crisis of 1992- 93 and continued with the "tequila" crisis of 1994-95 and also the Asian, Russian, Long-Term Capital Management (LTCM), and Brazilian crises. This research examines the daily fluctuations between exchange rates and stock prices for five major currencies, including Deutschmark, US Dollar, Japanese Yen, Great Britain Pound and Singapore Dollar, for the period of February 1998 to October 2001. In doing so, the Aumented-Dickey Fuller test and Johansen procedure are applied to investigate the stationary and cointegration properties of the variables. Our empirical results show the one-way causality effect from the exchange rate on the equity market. Our results also suggest that fluctuations of the Ringgit against Deutschmark tend to exhibit significant influence on the equity index, regardless of the exchange rate arrangement system employed and the degree of capital controls.*