A STUDY ON THE IMPACT OF INTEREST RATES ON MONEY MARKET RATES : SPECIAL STUDY ON MALAYSIAN TREASURY BILLS

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ABSTRACT

The Malaysian economy is currently strong and still there is a massive development in the market either capital or money market. A dealer said that only within one week, from around Dec 23, 1993 to Jan 4, 1994, the foreign speculators sold many US$ 8 billion for ringgit and it all tied to the securities market and money market.

The strong economic growth over the past few years has led the inflationary rate to decline and with the Central Bank has to keep interest rate high to monitor the inflation. With numbers of instruments have been introduced and major player like Commercial Banks, Merchant Banks, Finance Companies and Discount Houses involved in this area, the money market matured into an important market in Malaysia.

Therefore, this paper attempts to study the factors that affected the money market rates especially Treasury Bill rates. This paper will analyse three types of models that comprises 3, 6 and 12 months Treasury Bill rates representing the short run, medium and long run. The factors that will be covered are real interest rates, inflation rates, gross national product and money supply. Similar studies have also been carried out in overseas market. The findings indicate that the factor that affected the shift in Treasury Bill rates is expected inflation. Our study is consistent with the above result.

TABLE OF CONTENT