



MYR-SGD MONETARY EXCHANGE RATE MODEL:
A COINTEGRATION APPROACH

RAHIMAH BINTI M.S. SULAIMAN
2008776909

BACHELOR OF BUSINESS ADMINISTRATION
WITH HONOURS (BUSINESS ECONOMICS)
FACULTY OF BUSINESS MANAGEMENT
UNIVERSITI TEKNOLOGI MARA
KOTA KINABALU, SABAH

JANUARY 2012

ABSTRACT

This paper focuses on the study of the monetary model of the exchange rate determination using Malaysia ringgit-Singapore dollar exchange rates. The macroeconomic variable of exchange rate is income (GDP), inflation (PERINF), interest rate (IR) and money supply (M2) for both countries from 1991 to 2010. Cointegration is used to examine the long-term relationship with all the macroeconomic variables. Estimation results indicate a stationary relationship between ringgit-dollar exchange rate and monetary models with long-term causality flowing from the monetary variables to the ringgit-dollar exchange rates. The study can conclude that in Malaysia, there only income and inflation cause the exchange rate while for Singapore, there only interest rate and money supply that causes to their income.

Signature: 

Date: 26/1/2012

Rahman Binti M.S. Sulaiman

890411-12-0212

ACKNOWLEDGEMENT

I would like to thanks to Allah S.W.T in giving me strength to completing this thesis on time without many barriers of health and many more. My family that always pray and wishes for the best to me, and also supporting me in financial and advices. To my supervisor Sir Haji Wahj bin Ismail that hopefully can accept my precious work with a better mark, and thank you for all the help. To all my friends that always give different opinion on finishing this thesis, and lastly to the future researcher that choose this thesis as one of their references.

Table 6 Pairwise Granger Causality Tests : Sample 1991(Q1) to 2010(Q4)

TABLE OF CONTENT

	Page
USE OF THE THESIS	ii
PREFACE	iii
ABSTRACT	iv
DECLARATION	v
ACKNOWLEDGMENT	vi
LIST OF TABLES	vii
LIST OF FIGURES	viii
CHAPTER	
1 INTRODUCTION	
1.0 Background of The Study	1
1.0.1 Economic Crisis	3
1.1 Problem Statement	6
1.2 Research Objective	7
1.3 Significance of the Research	7
1.4 Limitation of Study	8
1.5 Organization of the Thesis	9
2 LITERATURE REVIEW AND THEORY	
2.0 Overview of the Literature Review	12
2.1 Theories associated with this study	13
2.2 Literature Review	13
2.2.1 The Factors of determinant Exchange Rate	
2.2.1.1 INCOME	17
2.2.1.2 INFLATION	18
2.2.1.3 INTEREST RATE	18
2.2.1.4 MONEY SUPPLIES	19
2.3 Conceptual Framework	21
2.4 Literature Review Conclusion	22
3 DATA AND METHODOLOGY	
3.0 Introduction	23
3.1 Data	24
3.2 Measurement of Variables	26
3.3 Research Design	
3.3.1 Unit Root Test	
3.3.1.1 Augmented Dickey Fuller (ADF) Test	27
3.3.1.2 Phillips- Perron (PP) Test	28
3.3.2 Johansen's Multivariate Cointegration test	29
3.3.3 Granger Causality Test	31
3.3.4 Vector Error Correction Model (VECM)	32
3.4 Estimation Procedure	32
3.5 Statistical Software use (E-View6)	33
3.6 Conclusion of Chapter	33
4 RESULT AND FINDINGS	
4.0 Introduction	34
4.1 Descriptive Statistic	35
4.2 Findings	
4.2.1 Unit Root Test	
4.2.1.1 Augmented Dickey Fuller (ADF) Test	36
4.2.1.2 Phillips-Perron (PP) Test	38
4.2.2 Johansen Cointegration Test	40

	4.2.3 Test Result for Granger Causality	42
	4.3 Conclusion of Chapter	46
5	CONCLUSION AND RECOMMENDATION	
	5.0 Introduction	48
	5.1 Conclusion	48
	5.2 Recommendation	49
	REFERENCES	50
	LIST OF APPENDICES	54
	APPENDICES	55

The monetary approach to the exchange rate was developed in the late 1970 in response to the increased exchange rate flexibility and the corresponding growth of the economic interest in exchange rate determination. The Federal Reserve operates on a monetary theory that focuses on maintaining stable of prices (low inflation), promoting full employment and achieving steady growth in gross domestic product (GDP). East Asian crisis was mainly due a combination of the accumulated the factors and triggers.

These factors are leading the cumulative weakness of domestic financial and corporate systems as well as the inherent sectoral imbalances as illustrated in their current account inequality. Thus, the East Asian economies, the substantial foreign exchange reserves in short-term of a better position for preventing the speculative attacks.

Money is important in our daily life. Everywhere we use money in our transaction such as buying good, rent, fees for education, necessary and etc. Each country has they own value of currency. Malaysia call "ringgit" is their money while Singapore call as "dollar".