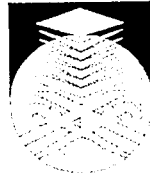


**THE RELATIONSHIP OF MONETARY DYNAMICS AND  
EXCHANGE RATE IN MALAYSIA**

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2005655670**

**BACHELOR OF BUSINESS ADMINISTRATION  
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JOHOR  
JOHOR DARUL TAKZIM**

**MAY2007**

DECLARATION OF ORIGINAL WORK




BACHELOR OF BUSINESS ADMINISTRATION  
(HONS) FINANCE  
FACULTY OF BUSINESS MANAGEMENT  
UNIVERSITI TEKNOLOGI MARA  
JOHOR

"DECLARATION OF ORIGINAL WORK"

I, Ervinna Maslina Bte Abd Musliikh Mashuri, (I/C Number: 841003015256, ID: 2005655670)

Hereby, declare that,

- This work has not previously been accepted in substance for any degree, locally or overseas and is not being concurrently submitted for this degree or any other degrees
- This project paper is the result of my independent work and investigation, except where otherwise stated
- All verbatim extracts have been distinguished by quotation marks and sources of my information have been specifically acknowledged.

Signature: 

Date: 10th MAY 2007

## ABSTRACT

This paper examines the existence of relationship of monetary dynamics and exchange rate in Malaysia that focus on demand for narrow and broad money balances. The objective of this study reveals the existence of a relationship among real money balances, real income, interest rate and exchange rate. The data for Malaysia are used as a case study. The variables used in this study are exchange rate (RM/USD), real income (GDP), and interest rate (T-bill) as independent variables and Narrow money (M1) and Broad money (M2) as dependent variables. The quarterly period examined is 1994:Q3 – 2006:Q4 (50 observations). These studies use multiple regression models to investigate the relationship between real money balances and their determinants, exchange rate, real income and interest rate. Generally, results from testing the hypothesis of multiple regression models confirm that both money balances (real M1 and M2) have highly significant relationship with their determinants. Despite, interest rate has a significant contributor to narrow money (M1) but not to broad money (M2). It is shown that the demand for money can be more stable by the inclusion of the exchange rate.

**Keywords:** Narrow Money, Broad Money, Exchange Rates, GDP, Interest Rates.