A STUDY OF INTERNATIONAL FISHER EFFECT THEORY AND SELECTED FOREIGN CURRENCIES

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- 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 our information have been specifically acknowledgement.

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ABSTRACT

The study on the changes in exchange rates in Malaysia were determined by interest rate differential and inflation rate differential of foreign countries based on their level of economic development. International Fisher Effect (IFE) theory is indicator that used to analyse in term of economic term the relationship between interest rate and inflation rate differential into changes in exchange rates. This study to identify the significant of interest rate into the change in exchange rate based on International Fisher Effect theory and to analyse the inflation rate influences on exchange rate based on the International Fisher Effect theory. The period of time of this study is between, 1999:Q1 to 2011:Q4. In order to analyse data, this study use regression technique to show positive significant of interest rate differential and inflation rate differential to influence on changes in exchange rate. The finding show that for Malaysia – United States and Malaysia – United Kingdom pairs the inflation rate and interest rate not move together to influences the changes of exchanges rate. The finding also shows international fisher effects theory valid only on Malaysia – Japan and Malaysia – Singapore.

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