MONEY DEMAND AND THE ROLE OF FOREIGN FINANCIAL VARIABLES: EVIDENCE FROM ENGLE-GRANGER AND ARDL APPROACH

MUHAMMAD AZMIN BIN SHAHARI
2009603998

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

JUNE 2012

ABSTRACT

This paper focused on studies about the role of foreign financial variable to the money demand in Malaysia. The major research question of the research is that whether the money demand (M2) will be influenced by the financial variables such as the Foreign (US) Interest Rate (LIBOR) and the nominal exchange rate. Every single variable in this study were being tested by using unit root test, such as the Philip-Peron (PP). A co-integration test approach being done by using Engle-Granger (the residual approach of cointegration) and Autoregressive Distributive Lagged (ARDL) to finds a single cointegration relation among the variables, are conducted on quarterly data over 1998:Q1 to 2011:Q4. The result will exactly justify answering the previous research.

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 Dr.Imbarine Bujang 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 OF CONTENT