



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

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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.

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