THE RELATIONSHIP BETWEEN GOLD PRICE WITH EXCHANGE

RATE, INFLATION RATE AND INTEREST RATE

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Thank you.

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ABSTRACT

The purpose of this paper is to analyze the relationship between the gold price, exchange rate, inflation rate and interest rate by utilizing STATA software. In order to achieve this objective, the Vector Error Correction Model (VECM) is employed to determine whether exchange rate, inflation rate and interest rate may affect the gold price based on a 21 yearly data. The long run relationship shows that all independent variables which are exchange rate, inflation rate and interest rate have a significant relationship toward the gold prices. Granger Causality is applied to test the causality between the variables. In the short run relationship, the finding show that only one independent variable which is inflation rate is significant. On the other hand, there is insignificant relationship between exchange rate, interest rate and gold price. Both independent p-values are less than significant interval which means this result will not reject the null hypothesis. As a conclusion, the causal relationship between gold prices with exchange rate, inflation rate and interest rate are no directional relationship. It is recommended that future researchers should improve the reliability and validity of the result by replacing the other independent variables such as demand and supply, export and import and others.

Keywords: Gold price, Exchange rate, Inflation rate and interest rate