MYR-SGD MONETARY EXCHANGE RATE MODEL: A COINTEGRATION APPROACH

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ABSTRACT

This paper focuses on the study of the monetary model of the exchange rate determination using Malaysia ringgit-Singapore dollar exchange rates. The macroeconomic variable of exchange rate is income (GDP), inflation (PERINF), interest rate (IR) and money supply (M2) for both countries from 1991 to 2010. Cointegration is used to examine the long-term relationship with all the macroeconomic variables. Estimation results indicate a stationary relationship between ringgit-dollar exchange rate and monetary models with long-term causality flowing from the monetary variables to the ringgit-dollar exchange rates. The study can conclude that in Malaysia, there only income and inflation cause the exchange rate while for Singapore, there only interest rate and money supply that causes to their income.

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TABLE OF CONTENT