THE RELATIONSHIP BETWEEN BUDGET DEFICIT AND OTHER MACROECONOMIC VARIABLES IN MALAYSIA

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JUNE 2014

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ABSTRACT

It is an obvious fact that Budget Deficit has become unresolved issues in a macroeconomic paradigm. Malaysia itself experienced a deficit prior in 1970s and tend to increase recently. The objective of this paper work is to explored the relationship between budget deficits with other macroeconomic variables namely interest rates, private investment and gross domestic product from Malaysia's perspective. Regression is based on time series data for the period of 1970 to 2011 and have been employed Ordinary Least Square (OLS), Johansen Cointegration as well as Granger Causality test. The analysis reveals no long run relationship hold between deficit and this macroeconomics variables and indirectly support the Ricardian Equivalence hypothesis. Nevertheless, there is a positive and significant relation between budget deficit with private investment and negative relation between deficit and gross domestic product. The bi-directional causality are detected running from gross domestic product to private investment and vice versa.

Keywords: Budget Deficit; Interest Rate; Private Investment; Gross Domestic Product; Ordinary Least Square; Cointegration; Granger Causality.