

Tests Of The Different Variants Of The Monetary Model In A Developing Economy : Malaysian Experience In The Pre-And Post-Crisis Periods.

ABSTRACT

This study examines the validity of four different variants of the monetary model of exchange rate determination for Malaysia covering both the pre- and post-crisis periods using the vector error-correction models. The findings demonstrate that for both periods, the variables used are cointegrated. Tests tend to suggest that of the four variants of monetary model, the sticky-price model holds in both periods and the flexible-price model holds only in the post-crisis period. The proportionality between the exchange rate and relative money does not hold in any period. The plotted actual and fitted exchange rates for both sub-samples show that the models are able to track the actual exchange rate trend quite well.

Keyword: Monetary Model; Cointegration analysis; Currency market; Error correction; Exchange rate; Financial crisis; Monetary policy.