

# **THE EFFECTS OF NARROW MONEY ON THE MALAYSIAN ECONOMY**

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## Abstract

The research of the effects of narrow money in the economy has been often and extensively done over the years. These include using Quantitative Theory of Money model and testing various types of monetary aggregates such as from narrow money to broad money to attest the relationship of money with the economic variables. Money has evolved from the form of barter trade to gold and to fiat money over the centuries. Today, in a modern world and advanced technology, the form of payments that has further enhanced the convenience of household, has transformed the society into a cashless society. Cashless payments can be in the form of credit card, debit card and e-purse. The initial intention of this paper was to find out the impact of credit card on the Malaysian economy. But due to lack of research data on credit cards, this research appraises the role of narrow money in the Malaysian economy assuming that credit cards have the same effect as of narrow money<sup>1</sup>. The key findings are narrow money does affect inflation in the economy. But the relationship between narrow money and output is unclear. The findings have also proven that over the years, the role of narrow money has dwindled. Could it possibly happen because of new forms of payment<sup>2</sup>? This research is unable to answer this question<sup>3</sup> and will only serve as a starting point for future research to further explore into the role of credit card in the economy that might have slowly taking over the role of narrow money (currency in circulation and demand deposits) in the economy.

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<sup>1</sup> Since the function of credit card is similar to narrow money in terms of its liquidity and convenience.

<sup>2</sup> Credit card, debit card, e-purse.

<sup>3</sup> Till there's enough data on credit cards

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## List of Abbreviations

### Narrow Money and its Components

<i>MI</i>	Narrow Money <i>MI</i>
<i>CU</i>	Currency in Circulation
<i>DD</i>	Demand Deposits

### Consumer Price Index and its Components

<i>CPI</i>	Consumer Price Index
<i>TCPI</i>	Total Consumer Price Index
<i>FD</i>	Food
<i>BEV</i>	Beverages and Tobacco
<i>CL</i>	Clothing and Footwear
<i>GR</i>	Gross Rent, Fuel and Power
<i>FURN</i>	Furniture Furnishings and Household Equipment
<i>MED</i>	Medical Care and Health Expenses
<i>TPT</i>	Transport and Communications
<i>RCR</i>	Recreation, Entertainment, Education and Cultural Services
<i>MISC</i>	Miscellaneous Goods and Services

## **Index of Industrial Production and its Components**

<i>IIP</i>	Index of Industrial Production
<i>TIIP</i>	Total Index of Industrial Production
<i>MN</i>	Mining
<i>EL</i>	Electricity
<i>MF</i>	Manufacturing
<i>PA</i>	Processing of Agricultural Products
<i>FD</i>	Food
<i>BEV</i>	Beverages
<i>TB</i>	Tobacco Products
<i>TX</i>	Textiles
<i>WP</i>	Wood and Wood Products
<i>RP</i>	Rubber Products
<i>CM</i>	Chemical and Chemical Products
<i>PC</i>	Products of Petroleum and Coal
<i>NM</i>	Non-Metallic Mineral Products
<i>BM</i>	Basic Metals
<i>MP</i>	Metal Products
<i>EP</i>	Electronic and Electrical Products
<i>TPT</i>	Transport Equipment