

## TABLE OF CONTENTS

<i>Acknowledgement</i> .....	i
<i>Abstract</i> .....	ii
<i>Table of Contents</i> .....	iii
<i>List of Tables</i> .....	vi
<i>List of Figures</i> .....	viii
Chapter 1: Introduction .....	
1.0 Overview.....	1
1.1 Objectives and Significance of the Study.....	2
1.2 Organisation of the Chapters.....	2
1.3 The Foreign Exchange Rate.....	3
1.4 Factors That Affect The Foreign Exchange Rates.....	5
1.5 The Role of the US Dollar in the World's Financial System.....	7
Chapter 2: Literature Review .....	
2.0 Exchange Rate Regimes and Trade.....	9
2.1 Currency Devaluation and Trade Balance.....	10
2.1.1 The Marshall-Lerner Condition.....	11
2.1.2 The J-curve.....	11
Chapter 3: Historical Background .....	
3.0 Exchange Rate Arrangements.....	15
3.1 The International Financial System.....	16
3.2 The Evolution of the Malaysian Exchange Rate Regime.....	23
3.3 The Performance of the Ringgit from 1970 until Now.....	25
Chapter 4: The Impact of the US Dollar on Real Effective Exchange Rate .....	
4.0 Nominal and Real Effective Exchange Rates.....	31

4.1 Key Elements in the Calculation of the Effective Exchange Rates.....	33
4.2 Bilateral Exchange Rates.....	36
4.3 Calculation of the Nominal and Real Effective.....	38
Exchange Rates	
4.3.1 Sources of Data.....	38
4.3.2 Calculation of Weights.....	39
4.3.3 Calculation of the Nominal and Real Export Weighted Effective Exchange Rate.....	40
4.3.4 Calculation of the Nominal and Real Import Weighted Effective Exchange Rate.....	40
4.3.5 Calculation of the Nominal and Real Trade Weighted Effective Exchange Rate.....	41
4.4 The Impact of The US Dollar on Malaysian Real Effective Exchange Rates.....	41
4.5 International Monetary Fund's Information Notice System.....	47
4.6 A Comparison of the Computed Effective Exchange Rates with IFS's Effective Exchange Rates.....	49
 Chapter 5: Impact of the US Dollar on Malaysian Trade Balance	
5.0 Overview of the Malaysian Trade Sector: 1975 – 2003.....	51
5.1 Methodology.....	54
5.1.1 Explanation of Variables.....	54
5.1.2 Model Specification.....	56
5.1.3 Tests for Stationarity.....	57
5.1.4 Cointegration Analysis.....	58
5.1.5 Vector Error Correction Model (VECM).....	59
5.2 Results and Analysis.....	63
5.2.1 The Test for Stationarity.....	63
5.2.2 Test for Cointegration.....	64
5.2.3 The Vector Error Correction Model.....	69
5.3 Conclusion.....	87

Chapter 6: Conclusion	
6.0 Limitations of the Study.....	90
6.1 Suggestions.....	90
6.2 Summary.....	91
Bibliography.....	93

*Appendix A*

Malaysia: Nominal and Real Effective Exchange Rates and RM/US\$  
Bilateral Exchange Rates (in nominal and real terms)

*Appendix B*

Malaysia: Adjusted Effective Exchange Rates and IFS's Effective  
Exchange Rates