CHAPTER 5

METHODOLOGY

5.1 INTRODUCTION

The analysis begins with an overview of the economies of Malaysia and Singapore using graphical and tabular analysis of broad indices. This is followed by the formulation of a simultaneous equations model.

5.2 DATA AND SOURCES

All analyses in this research paper will mainly use secondary data from the Central Bank Annual Report and Economic Report of the two countries. Besides that, International Monetary Fund (IMF) publications and any text books or journals which are applicable and reliable will also be referred to. A period of 22-years from 1975 to 1996 will comprise the sample size for the analysis. The economic variables chosen in this comparative analyses will be the ones for which values are obtainable from both countries for the same time frame.

5.3 SOFTWARE

Eviews.

5.4 SIMULTANEOUS EQUATION MODELS

The proposed simultaneous equation models are as follows :-

$$BOPs = CUB + CAB$$

$$CAB = LC + SC$$

$$CSUMTION = f(M3, IVESTMEN)$$

$$CUB = TB + SB$$

$$DEPOSITS = f(CPI)$$

$$EXPORTS = f(REER, TFP)$$

$$GNP = CSUMTION + IVESTMEN + EXPORTS - IMPORTS$$

$$IMPORTS = f(GNP)$$

IVESTMEN = f (M3)

    LR   = f (DEPOSITS, LOANS)

  LOANS = f (M3)

    SC   = f (R, RW, KLSE or SES)

    TB   = EXPORTS - IMPORTS

    U   = f (CPI, GNP)

Abbreviations :-

BOPs	=	Balance of payments
CSUMTION	=	Total consumption (private + government)
CPI	=	Consumer price index
CAB	=	Capital account balance
CUB	=	Current account balance
DEPOSITS	=	Banking system deposits
EXPORTS	=	Exports of goods
GNP	=	Gross national product
GNS	=	Gross national savings (as % of GDP)
IMPORTS	=	Imports of goods
IVESTMEN	=	Gross capital formation (private + government)
LOANS	=	Banking system loans
LR	=	Liquidity ratio
M3	=	Broad money supply
R	=	Interest rate (monthly data refer to the daily average overnight interbank lending rates of ten banks)
RW	=	World interest rates
REER	=	Real effective exchange rates
SB	=	Services balance
SC	=	Short term capital
KLSE / SES	=	Annual turnover of Malaysia's or Singapore's stock market
TB	=	Trade balance
TFP	=	Total factor productivity
U	=	Unemployment rate

An important caveat applies here which is, that the study does not attempt to correct for cross-country differences in industrial structure. A major constraint of the study is the availability of economic data on Malaysia and Singapore from 1975 to 1996.