

LONG RUN DETERMINANTS OF MALAYSIAN TRADE BALANCE:
A COINTEGRATION STUDY

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Abstract

This paper aims to study the long run determinants of Malaysian trade balance by using the cointegration method by using quarterly data from 1973 1Q to 1998 4Q. In order to study the long run equilibrium relationship, trade balance is tested against other macroeconomic variables which resemble monetary policy, exchange rate policy and fiscal policy. The final results is that interest rate is the only variable found to be cointegrated with the trade balance. As such, it implies that interest rate may be an effective policy instrument to rectify the problem of trade imbalances in Malaysia. On the other hand, other policies such as fiscal policy and exchange rate policy may not be effective to overcome the problem of trade imbalances in Malaysia.

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