THE IMPACT OF WORLD OIL PRICE AND GOLD PRICE SHOCKS ON MALAYSIA AND US

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ABSTRACT

The purpose of this paper is to explore the effect of the world oil price and gold price shocks on the economic growth of a country. In this paper, we test the impact of the commodities' price shocks in two countries, Malaysia and the US. The reason these two countries were used is to enable the comparison between a developing country and a developed country, as well as the comparison between an oil-producing country and oil-importing country. Generally, we expect a net oil importing country such as the US to be negatively affected by the oil price hike; and a net exporting country such as Malaysia to benefit from an oil price shock. In initial OLS test, we found that the oil prices and gold prices have significant relationship with the GDP in Malaysia and the US. Both regressions, oil prices and gold prices are significant at 5% level. Gold prices are positively related to the GDP while the oil prices are negatively related to the GDP. Next the vector autoregression (VAR) test is carried out to characterize the dynamic structure of the model as well as its ability to avoid the imposition of excessive identifying restrictions associated with different economic theories. VAR results shows that past GDP innovations do not contain any significant information about the variation of either gold prices or oil prices. It confirms the assertion that gold prices and oil prices do not contribute much in the supporting role of supplementing information about current and future output movement. A study on the impulse response function shows that the response of oil price on one standard deviation innovation dies out more quickly compared to the response of gold price in Malaysia and the US. Therefore, the impact of oil price shock is more important compared to a gold price shock, as seen in the variance decomposition result. Between the two countries, the impact of oil price and gold price shocks are more pronounced in Malaysia as compared to the US. Granger causality test also shows uni-directional causality from gold price and oil price to GDP in both Malaysia and the US case. The research also failed to find any significant difference between the impact of oil price shocks on the growth rate on an oil-exporting country, Malaysia and an oil-importing country, the US. We then look at the underlying causes of the movement in the commodities' prices and the channel through which the oil price can impact the economy. In addition, this paper also details the historical rally in prices for the commodity gold and crude oil.

TABLE ON CONTENTS

	Page
Acknowledgements	ii
Abstract	iii
List of Tables	vi
List of Figures	vii
Chapter 1: Introduction	
1.1 Introduction	1
1.2 Objective of Study	3
1.3 Statistical Program	3
1.4 Organization of Study	3
Chapter 2: Literature Review	
2.1 Overview	5
2.2 Literature on Commodity Prices in General	5
2.3 Literature Regarding Oil Price Shock	9
2.4 Literature Regarding Gold Price Shock	16
Chapter 3: Historical Background on Oil and Gold Price Shocks	
3.1 The History of Crude Oil and Gold Price Shocks	22
3.2 Crude Oil	
3.2.1 Introduction	24
3.2.2 Crude Oil Price History and Analysis	25
3.3 Gold	
3.3.1 Introduction	29
3.3.2 Gold Price History and Analysis	31
3.4 The Malaysian Economy	
3.4.1 Introduction	36
3.4.2 Analysis of Oil and Gold Price Shock in Malaysia	39

Chapter 4: Data and Methodology

4.1 Introduction 43

4.2 Data 43

4.3 Methodology

4.3.1 Initial Testing 44

4.3.2 Vector Autoregression (VAR) 45

4.3.3 Impulse Response Function(IRF) and Variance Decomposition(VD) 47

4.3.4 Granger Causality Model 49

Chapter 5: Empirical Results

5.1 Initial Findings on the Relationship Between Oil Prices, Gold Prices and GDP in Malaysia and the US. 51

5.2 VAR, IFR and VD Results 52

5.3 Granger Causality 63

5.4 Conclusion 64

Chapter 6: Conclusion

6.1 Introduction 66

6.2 In Perspective 66

6.2 Factors Affecting Commodity Prices 67

6.3 The Impact of High Oil Prices on the Economy 68

6.4 Limitations of the Study 70

References 72

Appendix 76

LIST OF FIGURES

Figure 3.1: The Trend in Oil Price and Gold Prices from 1970 to 2002

Figure 3.2a: Proven Conventional Oil Reserves by Countries (2001)

Figure 3.2b: Proven Conventional Oil Reserves by Regions (2001)

Figure 3.3: The trend in Gold Prices from 1900 to 2002

Figure 3.4: Gold Prices, Malaysia and the US Exchange Rate (1970-2003)

Figure 3.5: Production, Import and Export of Crude Oil in Malaysia (1970-2002)

Figure 3.6: Malaysia's Production, Import and Export of Gold ('000 grams)

Figure 3.7: World Official Gold Holdings (Dec 2003)

Figure 3.8a: The Trend in Malaysia's GDP and Gold Prices from 1970 to 2002

Figure 3.8b: The Trend in Malaysia's GDP and Oil Prices from 1970 to 2002

Figure 5.1a: IRF-Combined Response Graph

Figure 5.1b: VD-Combined Response Graph

LIST OF TABLES

Table 5.1: Augmented Dickey-Fuller Test Results for Oil Prices, Gold Prices and GDP

Table 5.2: Akaike Information Criteria (AIC) Values

Table 5.3: T-Statistics for Vector Autoregression (VAR) Test

Table 5.4: Impulse Response Functions (IFR)

Table 5.5: Variance Decompositions (VD)

Table 5.6a: Granger Causality Test Results for Malaysia

Table 5.6b: Granger Causality Test Results for US