

In Memory of My Father  
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## ABSTRACT

Financial liberalization had caused instability in the money demand function as well as in the velocity of money. As a result, money supply is no longer reliable as the main intermediate target and there appeared to be a shift in the technique of monetary control towards greater reliance on interest rates as the main operating instrument. Developing countries that continue to emphasize on quantitative method in their monetary framework while at the same time implement financial reforms may face the problem of a loss of monetary control and hence, monetary policy may possibly not be effective in influencing income or prices. Although Malaysia has moved to give greater emphasis to interest rates in its monetary operations since the 1990s, it continues to rely on M3 as the implicit intermediate target. The shift in monetary framework has allowed for greater flexibility in the conduct of monetary policy. This move has made monetary policy become more effective in affecting real output and prices. During the sample period under review, broad money M3 appeared to statistically show low significance in its predictive power with respect to income. Nevertheless, both narrow money M1 and broad money M3 were found to have long run relationships with real output but not with prices. However, both aggregates seemed to be poor variables in their role in providing information to movements in prices. On the other hand, interest rates have gained significance and this is evidence by the empirical results in this study.

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## ABBREVIATIONS

M1GR	-	annual growth rate of narrow money M1 for Malaysia
M2GR	-	annual growth rate of broad money M2 for Malaysia
M3GR	-	annual growth rate of broad money M3 for Malaysia
CURRGR	-	annual growth rate of currency in circulation for Malaysia
RMGR	-	annual growth rate of reserve money in Malaysia
IR3M	-	3 month inter-bank interest rate in Malaysia
ALR	-	average lending rate of commercial banks in Malaysia
CB FD	-	commercial banks fixed deposit rate
NGNP	-	nominal gross national product
M3CRGR	-	annual growth rate of private sector credit defined under broad money M3 for Malaysia
DEPGR	-	annual growth rate of private sector deposits defined under Broad money M3 for Malaysia
RIR3M	-	3 month inter-bank real interest rates
IRMY_SG	-	interest rate differential between Malaysia and Singapore
IRMY_UK	-	interest rate differential between Malaysia and United Kingdom
IRMY_US	-	interest rate differential between Malaysia and United States
RIRFD	-	fixed deposit real interest rate
RGDPGR	-	annual growth rate of real gross domestic product
CPIGR	-	inflation rate in Malaysia
UKIBR3M	-	United Kingdom 3 month inter-bank interest rate
UKINF	-	United Kingdom inflation rate
UKGDPGR	-	United Kingdom annual growth rate of real gross domestic product
UKM0GR	-	United Kingdom annual growth rate of narrow money M0
USFFR	-	United States federal funds rate
USINF	-	United States inflation rate
USGDPGR	-	United States annual growth rate of real gross domestic product
USM2GR	-	United States annual growth rate of money supply M2
FRIBOR	-	France inter-bank offered rate
FRINF	-	France inflation rate
FRGDPGR	-	France annual growth rate of real gross domestic product
FRMSURGR	-	France annual growth rate of monetary survey
BDIBR	-	Germany inter-bank interest rate
BDINF	-	Germany inflation rate
BDGDPGR	-	Germany annual growth rate of real gross domestic product
BDM3GR	-	Germany annual growth rate of broad money M3
IDGDPGR	-	Indonesia annual growth rate of real gross domestic product
IDINF	-	Indonesia inflation rate
IDIBR	-	Indonesia inter-bank interest rate
IDMSURGR	-	Indonesia annual growth rate of monetary survey
THCALL	-	Thailand call rate
THINF	-	Thailand inflation rate
THGDPGR	-	Thailand annual growth rate of real gross domestic product
THGMSURGR	-	Thailand annual growth rate of monetary survey

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