An Analysis Of A Monetary Approach To The Balance Of Payments And Exchange Rates: The Case Of Malaysia 1986 - 1997

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I have tried my very best to complete this dissertation and any recognizable errors were noted and corrected. Hence it is with great hope that this dissertation will be a beneficial one to anybody concerned.

Thank you,
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ABSTRACT

The research paper attempts to investigate the empirical analysis of the monetary approach to the balance of payments and exchange rates in the Malaysian environment. Through assessing the balance of payments and exchange rate position in Malaysia, the objective is to determine whether the monetary phenomenon could be the reason for the 1997 financial crisis that resulted its government to opt for a fixed exchange rate and capital controls policies in September 1997. The time period of the study was 12 years from 1986 to 1997 and in all cases the annually data was used. The central proposition of the monetary approach is that both the balance of payments and the exchange rate are essentially monetary phenomena and thus the analysis should be centered around the money supply process and the demand for money. The conclusion of the studies is that all the results in the analysis conformed to the predictions of the monetary approach model. It cannot be denied that the monetary phenomena could play the main role of causing the crises either to the balance of payments problem or the exchange rate problem. Since Malaysia was following a managed floating system that pegged its currency to the US dollar, a general rule to remember is it needs to match an international system with its domestic monetary policy which may result into conflicts that lead to crises and breakdowns. A pegged exchange rate would sooner or later always collapse.