CHAPTER VI

SUMMARY AND CONCLUSION

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Introduction

This chapter summarizes and concludes the study. The implication of the findings will ɔ be discussed. Recommendations for further analysis are covered in the last section of the ɪpter.

Summary of the Empirical Findings

The empirical result obtained from this study was based on the quarterly data series over period of 1991:q1 to 2001:q2 to examine the impact of the financial variables on sectoral ɔduction in Malaysia. The results may be summarized as below.

The augmented Dickey-Fuller (ADF) and the Philips Perron (PP) unit root. The gmented Dickey-Fuller (ADF) and the Philips Perron (PP) unit root test procedures were used testing for stationarity of the variables. Both test show that all the series are first-order egrated, I (1), this implies that all these series under study are non-stationary in the level form, ɔugh stationary in the first difference.

The next step is to apply the Johansen-Juselius (1990) maximum likelihood method in the ext of the multivariate regression test, which is generally applied to I (1) variables and based he maximum-likelihood estimation technique. These results of the multivariate cointegration veen the financial variables and sectoral production indicate that these factors are tied ther by some long run equilibrium relationship. However, the Johansen and Juselius itegration test does not indicate the direction of causality between the variables.

The more recent Granger no-causality test developed by Toda and Yamamoto (1995) roach utilizes the Modified Wald (MWALD) test for testing linear restriction on the meters. This test examines the long-run causal relationship between financial variables and oral production on Malaysia.

The empirical results of model 1 suggest that broad money (M2 and M3) is neutral with ect to the electric, gas and water (EW). On the other hand, it seemed to have more predicting er to influence the manufacturing sector (MF), wholesale and retail and hotel and restaurants ζ), finance and insurance and real estate and business service (FB). These results can provide ear policy, which indicate that the Monetary Authority of Malaysia has a broader measure of ley that causes significant fluctuation in the long run. Thus, in order for government to lement practical and beneficial targeting in manufacturing (MF), wholesale and retail and il and restaurants (WR), finance and insurance and real estate and business service (FB) iout causing the unnecessary affects to mining and quarry (MN) as well as electric, gas and er (EW) and less affects to other sectors. It is advisable to use money supply as an instrument nonetary policy to achieve the objective.

In the model 2, the results show that the neutrality of the credit of the major service sector. other hand, commercial loans have more influence on the manufacturing (MF), c and :rnment services (GS) in the long run. However, findings for the research findings found that it has a reverse Granger-causality (uni-direction) to the construction (CS). Thus, if :rnment wants to increase the effectiveness of manufacturing sector without affecting the ice sectors (excluded government services), it is advisable to use credit as instrument of .etary policy.

In the model 3, the results also show that the stock market activity has more predicting er to led agricultural (AG) compared to its impact on the gas and water (EW), wholesale and l and hotel and restaurants (WR), finance and real estate and business services (FB) in aysia. These findings are inconsistent with Ganley and Salmon (1996) studies on the U.K. money is not important for agriculture sector due to slow responds to monetary tightening. stock prices, however, show no significant impact on manufacturing sector in the long run. It ise to say that, these results may gave a mirror image of our agricultural economy as large ribution of the exports in years have been i.e. palm oil and rubber. Furthermore, that :rstood to have a fluctuation of prices in world market, more to include because of the able demand and supply.

In conclusion, the results of this study confirm that money is non-neutral and have casting power in the sectoral production movement in Malaysia.

6.3 Discussion and Policy Implications

The most importance player in financial markets throughout the world are central banks, which is the component of government authorities that in charge of monetary policy. The monetary policy as practice nowadays, have absolute affects on interest rates, the amount of credit, equity market and money supply, all of which have direct impact not only on financial market but also on the economic activities (all sectoral production).

Monetary policy is ineffective by using broad money as an instrument to affect the sector of electric, gas and water (EW) sector. Similarly, commercial loan and stock prices seem to have no effect to mining and quarrying (MN) sector and manufacturing (MF) respectively.

However, it is effective to use broad money as an instrument of monetary policy and have a strong predicting power on manufacturing sector (MF), whole and retail and hotel restaurants (WR), finance and insurance and real state and business (FB). Similarly, commercial loan seems to play an important role to manufacturing (MF), construction and government services (GS) but stock prices affect only with respect to agricultural (AG) in Malaysia.

This research was useful to federal government to analysis the effectiveness of monetary policy in various production sectors in Malaysia. Federal government can be used these informative results to beneficial targeting on one sector without causing the unnecessary affects to other sectors. Thus, this will facilitates the growth of domestic economy and improve competencies of government future forecasting.

6.4   Recommendations for Further Studies

This study has shown a number of interesting issues relating to the choice of data, literature reviews, methodology and the empirical results, and the sample period covers from 1991 to 2001. Therefore, the direction of this thesis will pay attention to the following issues.

First, these financial variables were investigated during the financial crisis (1997 to 1998) and this may have affected the results obtained. Cheung and Ho (1991) pointed out that long periods of estimation subject to stability debate, may leads to unstable and misleading.. Several statistical techniques may be utilized to detect possible instability in parameter estimates, such as cumulated sum of the residual (CUSUM) and interactive Johansen test.

Second, the multivariate cointegration and unit root tests are known to sensitive to the moving average components as well as lag structures. Therefore, the new development in testing for stationarity, namely KPSS test (Kwiatkowski, *et al.*, 1992) should incorporate for future research. However, the AIC from Veiws was used in this study is still applicable (refer to Azali and Habibullah, 2000. The journal paper of "Sectoral impact of monetary policy in Malaysia and Singapore.").

The finally issue is the importance of monetary policy reaction function. As argued by Taylor (1995, p.15), " a complete story of the monetary transmission mechanism should thus include a description of the Central Bank's reaction function showing how the Central Bank adjust the monetary policy variables in response to various factors in the economy, including real GDP and inflation." With the exception of Bernanke and Blinder (1992), most of the previous studies in this area have ignored this aspect. As stressed by Bernanke annd Blinder (1992), if one has selected well the measure of monetary policy, then it must be able to respond to the Central Bank's reaction of the state of the economy. In the context of Malaysia economy, financial liberalization has certainly changed the environment in which monetary policy operates. Thus the effects of these factors on the domestic economy need to be taken into account.

6.4   Conclusion

In conclusion, this paper has examined the long-run causal relationship between financial variables and sectoral productions on Malaysia using the Toda and Yamamoto (1995) Granger non-causality testing procedures and found that money is non-neutral and have forecasting power in the sectoral production movement in Malaysia.