Abstract

In this study, we examine the long-run relationships of the exchange rate of ringgit Malaysia through three difference methods. Firstly, we estimate the ringgit Malaysia with a simple Big Mac index. The results show that the ringgit Malaysia is undervalued since 1993. Secondly, we used the co-integrating techniques to examine the long-run relationship of the exchange rate of ringgit Malaysia agaist United States dollar vis-à-vis other Asian currencies, namely Japanese yen and Singapore dollar against United States dollar. The short-term impact of these variables are also estimated by an error-correction model. Our results show that the Purchasing Power Parity does not hold and the changes of exchange rate has deviated largely from the Purchasing Power Parity. Lastly, we examine the ringgit Malaysia over the last 10 years by using Edwards' model to examine the exchange rate policy and the external competitiveness. This model is used to estimate the Malaysia's equilibrium real exchange rate which is consistent with the fundamentals. The results show that exchange rate of ringgit Malaysia against United States dollar was overvalued before quarter four for year 1999 and has undervalued after 1999.