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The linkages among energy consumption, economic growth, relative price, foreign direct investment, and financial development in Malaysia

Published: 08 November 2012

Volume 48, pages 781–797 (2014) Cite this article



Quality & Quantity

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Abstract

The aim of this study is to analyse the causal relationship among energy consumption, economic growth, relative price, financial development (FD) and foreign direct investment in Malaysia using a multivariate framework. This study covers a sample from 1972 to 2009. Both the Johansen–Juselius cointegration test and bounds testing approach to cointegration consistently suggest that the variables are cointegrated. We find that energy consumption and economic growth Granger causes each other in the short and long run. In addition, both FDI-led growth and finance-led growth hypotheses are also supported by the findings from this study. Ultimately, energy is a prominent resource for financial sector development in Malaysia because we find that energy consumption Granger causes FD. Policymakers should implement a dual strategy that, on one hand, increases investment in energy infrastructure to ensure that the supply of energy is sufficient for the financial sector and economic development, while, on the

other, encourages R&D in green technology such as exercising proper soil conservation techniques and sustainable farming practices in order to reduce the consumption of fossil fuels. By doing so, environmental problems such as carbon dioxide emissions can be minimised without affecting economic growth and financial sector development in Malaysia.

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Cite this article

Tang, C.F., Tan, B.W. The linkages among energy consumption, economic growth, relative price, foreign direct investment, and financial development in Malaysia. *Qual Quant* **48**, 781–797 (2014). https://doi.org/10.1007/s11135-012-9802-4

Published
08 November 2012

Issue date
March 2014

DOI
https://doi.org/10.1007/s11135-012-9802-4

Keywords

Energy–growth | Financial development | FDI

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