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Demand for M3 and expenditure components in Malaysia: assessment from bounds testing approach

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Abstract

This study examines the effects of various demand components of real income on money demand, M3 for a small open developing Asian economy. The disaggregated components of real income are final consumption goods, expenditure on investment goods, and exports. Other determinants are domestic interest rate and exchange rate. Using Malaysian annual data over the period 1973–1998, the results of the 'bound' test based on Unrestricted Error-Correction Model estimation (Pesaran et al., 2001), indicates a long run equilibrium relationship between demand of real M3 and its determinants. The results also highlight that different domestic demand components yields different effects on money demand behaviour. The results have important policy implications.

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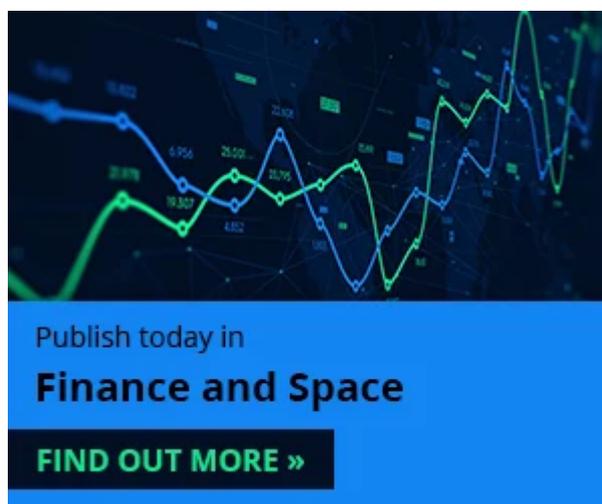Source: The Indian Economic Journal

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