

## **Empirical Testing on Uncovered Interest Rate Parity in Malaysia**

### **Abstract**

Uncovered interest rate parity (UIRP) provides a crucial theoretical concept for many models in international finance and international monetary economics. Using quarterly data span from 1998Q1 to 2010Q3, we run conventional regressions (OLS) and simple GARCH analysis on UIRP for the case of Malaysia-UK, Malaysia-Japan and Malaysia-Singapore. The empirical results show that these relationships do not support the UIRP in all cases. We, therefore, cannot reject the validity of UIRP violation such as in widely documented literature reviews. In addition, we also find that traditional (conventional) regressions on UIRP yield positive slope estimates for both Malaysia-UK and Malaysia-Japan cases, whereby for the case of Malaysia-Singapore, the beta slope estimates has a wrong sign (negative value). Results also show that the UIRP deviation for the case of Malaysia-Singapore has the smallest standard deviation. Moreover, the volatility analysis on the UIRP deviation using simple GARCH analysis revealed that there are significant ARCH and GARCH effects in the case of Malaysia-Singapore, and it seem to be persistent in the long term period. In addition, the empirical investigation on the impact of the interest rate volatility shocks on UIRP deviation does not exist in any cases.