

The long-run relationship between exchange rate and its determinants

Abstract

The paper examines the long-run relationship between exchange rate and its determinants in Malaysia using annually data spanning the period 1969 to 2014. Exchange rate plays an important role in international trade and finance. The exchange rate can be considered as a crucial channel that links the macroeconomic of an open domestic country to its trading partners. Through the Autoregressive-Distributed Lag (ARDL) approach, we find that there are a long-run relationships between nominal exchange rates and its determinants, namely relatives of money supply, income, interest rate and current account for Malaysia vis-à-vis United States. The notable results are only money supply shows significant impact on exchange rate while the other fundamentals do not have significant impact upon exchange rate.