

**A COMPARATIVE STUDY ON THE IMPACTS OF  
THE US MONETARY SHOCKS ON  
MACROECONOMIC FLUCTUATIONS UNDER  
FLEXIBLE AND FIXED EXCHANGE RATE REGIMES:  
MALAYSIA VERSUS HONG KONG**

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## ABSTRACT

Since the initiation of quantitative easing (QE) measures in the US in 2008, the Federal Reserve has followed up with a QE tapering in 2013 and a policy normalization measure in 2015 where the US finally raised its interest rate for the first time in nearly a decade. Such monetary operations in the US might have impacted the Malaysian market in the form of external shocks. This thesis aims to examine the effects of U.S. monetary policy expectations on macroeconomic fluctuations on Malaysia, a small and open economy. This thesis estimates a structural VAR model using monthly data from January 2000 to February 2016 with Friedman's hypothesis as a guiding principle. The result suggests that the Malaysian ringgit and industrial production were mostly affected by the U.S financial market variables. In comparison, Malaysia's inflation rate was relatively less affected by this external shock as compared to oil price shocks. This shows that the Malaysian ringgit serves as the primary absorber of the external shocks. Given that Malaysia operates under a flexible exchange rate regime, the nominal exchange rate acts as a natural automatic stabilizer when the economy faces external disturbances. Besides, based on previous studies regarding the choice of exchange rate regimes in absorbing external shocks, the results were found to be mixed. Therefore, this thesis also aims to examine the effectiveness and the role of flexible exchange rate regime against external shocks based on Friedman's hypothesis, after determining the impact of external shocks towards macroeconomic fluctuations in Malaysia. In order to show the differences between the bipolar choices of the exchange rate regime, this study will consider data from Hong Kong. With the two markets occupying either end of the spectrum, the contrast should be clearer and the conclusions more clear-cut. Consistent with prior results, the result indicates that interest rates in Hong Kong are more reactionary to U.S. monetary shocks compared to Malaysia. In general, the evidence is consistent with Friedman's hypothesis.

**Keywords:** U.S monetary expectations, External shocks, Macroeconomic fluctuations and Malaysia, Exchange rate regimes, Structural VAR model

## **ABSTRAK**

### **KAJIAN KOMPARATIF MENGENAI KESAN KEJUTAN KEWANGAN AMERIKA SYARIKAT TERHADAP MAKROEKONOMI DI BAWAH REJIM KADAR PERTUKARAN FLEKSIBEL DAN TETAP: BANDINGAN MALAYSIA DAN HONG KONG**

*Sejak Amerika Syarikat melaksanakan pelonggaran kuantitatif (QE) pada 2008, melakukan QE tapering pada pertengahan 2013 dan menaikkan kadar faedah buat kali pertama dalam tempoh hampir sedekad pada Disember 2015, satu siri kejutan luaran telah dialirkan ke Malaysia. Oleh itu, kajian ini bertujuan untuk mengaji kesan jangkaan dasar kewangan Amerika Syarikat kepada turun naik makroekonomi dalam sesebuah ekonomi kecil dan terbuka seperti Malaysia. Kajian ini menganggarkan sebuah modal VAR Struktur dari tempoh Januari 2000 ke Februari 2016 dengan menggunakan hipotesis Friedman sebagai garis panduan. Keputusan kajian ini menunjukkan bahawa Ringgit Malaysia dan pengeluaran perindustrian lebih dipengaruhi oleh pasaran kewangan Amerika Syarikat. Walau bagaimanapun, inflasi Malaysia adalah kurang dipengaruhi oleh kejutan Amerika Syarikat berbanding kejutan harga minyak. Keputusan kajian ini menunjukkan Ringgit Malaysia adalah penyerap kejutan utama kepada kejutan luaran. Ini kerana Malaysia mengamalkan sistem kadar pertukaran fleksibel yang mampu membenarkan kadar pertukaran nominal bertindak sebagai penstabil ekonomi apabila ekonomi menghadapi kejutan luaran. Selain itu, kajian terdahulu yang mengaji peranan sistem kadar pertukaran bertindak sebagai penyerap kejutan luaran telah menghasilkan keputusan yang tidak dapat disimpulkan. Oleh itu, kajian ini juga bertujuan untuk mengaji keberkesanan dan peranan kadar pertukaran fleksibel terhadap kejutan luaran berdasarkan hipotesis Friedman. Untuk menunjukkan perbezaan antara pilihan bipolar sistem kadar pertukaran, kajian ini akan menggunakan data dari Hong Kong. Selaras dengan hipotesis Friedman, keputusan kajian ini menunjukkan bahawa pembolehubah makroekonomi di Hong Kong adalah lebih dipengaruhi oleh kejutan kewangan Amerika Syarikat berbanding dengan Malaysia.*

*Kata kunci: Jangkaan dasar kewangan Amerika Syarikat, hentakan luaran, naik-turun makroekonomi dan Malaysia, regim kadar pertukaran, modal struktur VAR*