EFFECT OF FINANCIAL FACTORS AND OPTIMUM CURRENCY AREA ON REAL EXCHANGE RATE IN ASEAN-3 COUNTRIES

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EFFECT OF FINANCIAL FACTORS AND OPTIMUM CURRENCY AREA
ON REAL EXCHANGE RATE IN ASEAN-3 COUNTRIES

BY

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ABSTRAK

Integrasi serantau telah menjadi subjek penting di kalangan ahli-ahli ekonomi dan di lihat mampu merangsang kerjasama kewangan serta aturan tukaran asing pada anggota negara ASEAN-3 seterusnya memperluaskan promosi koordinasi makro dengan sasaran utama untuk mengurangkan tahap pemeluapan makro ekonomi seperti pemeluapan kadar tukaran. Tujuan pembentukan adalah untuk mengurangkan ketidaktentuan kadar tukaran dan mengelak ketidakselarasan kadar tukaran di kalangan anggota negara ASEAN. Kajian ini berhasrat untuk menyiaskan tahap pengubah Kawasan Matawang Optima (OCA) dan Faktor Kewangan (FF) dalam konteks ASEAN-3 serantau dengan US Dollar digunakan sebagai matawang utama, juga kepentingannya sebagai rakan dagangan utama dengan negara ASEAN-3 serta menjadi matawang permintaan global. Secara amnya, kami mendapati beberapa pengubah faktor kewangan di dapat memberi sumbangan penting dalam menentukan perubahan kadar tukaran. Tambah OCA memainkan peranan penting dalam menjelaskan kadar tukaran benar dagangan dua hala lagi.
ABSTRACT

Regional integration has become important subject among economists and is viewed capable of boosting monetary cooperation and foreign exchange arrangements among ASEAN-3 members thus promotes greater macro coordination, with the ultimate goal of reducing the extent of macroeconomics, such as real exchange rate. The purpose of the formation is to reduce exchange rate uncertainty and to avoid exchange rate misalignment among the ASEAN member countries. This research intends to investigate the extent of optimum currency area (OCA) variables and financial factors (FF) works within the context of ASEAN-3 countries with US Dollar used as anchor currencies, given their importance being major trading partners with the ASEAN countries and being the global demand currencies. In general, we found that several financial factors were found to have significant contribution on determining exchange rate variation. In addition, OCA variables have played an important role in explaining the bilateral real exchange rate.
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CHAPTER 1

OVERVIEW OF THE STUDY

1.1 Introduction

The Association of Southeast Asian Nations (ASEAN) was established on 8 August 1967 in The Bangkok Declaration by the five original member countries, namely, Indonesia, Malaysia, Philippines, Singapore, and Thailand. Brunei Darussalam joined on 8 January 1984, Vietnam on 28 July 1995, Laos and Myanmar on 23 July 1997, and Cambodia on 30 April 1999. The ASEAN region has a population of about 542 million, a total area of 4.5 millions square kilometers; its total gross domestic product (GDP) in 2003 was US$ 737 billion and a total trade of more than US$ 790 billion.

Prior to the currency and economic crisis in 1997, ASEAN countries had recorded historically strong and impressive real economic growth for the past ten years since the late 1980s. On average, the real GDP growth rates for the ASEAN countries excluding Brunei in 1994 and 1995 were 7.6% and 7.9% respectively. Among the ASEAN member countries, the highest economic growth rate (in 1995) was recorded in Malaysia (9.5%), followed by Thailand and Singapore (8.7%), Indonesia (8.2%) and The Philippines (4.8%). From 1990 to 1997 ASEAN countries achieved higher economic growth than any others. They were viewed as model for advances in technology and economic improvement. Strong domestic consumption and investment plus large exports
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REFERENCES


