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**DETERMINANTS OF INFLATION: EVIDENCE FROM ASEAN-5
COUNTRIES**

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UUM
Universiti Utara Malaysia

**MASTER OF ECONOMICS
UNIVERSITI UTARA MALAYSIA
JUNE 2016**

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By
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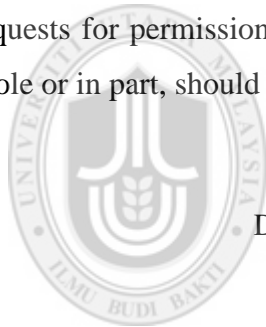
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**A dissertation submitted to
Othman Yeop Abdullah Graduate School of Business
Universiti Utara Malaysia
In Fulfillment of the Requirements for the Award Master's Degree of Economics**

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Abstract

Topic involving inflation has generated an enormous volume of literature and heated debate in recent years. It is important to study inflation because the consequences of inflation is terrible. By explaining inflation, different school of thought view the contrast cause and have different policies for fighting inflation. This study examines the relationship between selected independent variable towards inflation and theory that can explain inflation in ASEAN-5 countries using panel data analysis. This study used panel data spanning from year 1990 to 2014. A panel data approach was used to straighten out the time invariant country-specific effect and to reveal the relationship between the important variables across time. The results presented that fixed effect model was appropriate over the random effect models in this inflation model studied. Interestingly, the variables, namely wages, import, interest rate and gross domestic product were found to be significant determinants of inflation in ASEAN-5 countries. But, only money supply found to be insignificant by explaining the inflation in this sample of study. Based on these results, this study support the Post Keynesians view of inflation and several policy implications and recommendations were suggested.

Keywords: Inflation; ASEAN-5 countries; Fixed Effects Model; Random Effects Model, Post Keynesians

Abstrak

Topik melibatkan inflasi telah menjana satu jumlah yang sangat besar kepada kesusasteraan dan perdebatan hangat pada tahun-tahun kebelakangan ini. Ia adalah penting untuk mengkaji inflasi kerana akibat inflasi yang amat dahsyat. Dengan menjelaskan inflasi, sekolah pemikiran yang berbeza melihat punca kontras dan mempunyai dasar yang berbeza untuk melawan inflasi. Kajian ini mengkaji hubungan antara pembolehubah bebas yang terpilih ke arah inflasi dan teori yang dapat menjelaskan inflasi di negara ASEAN-5 yang menggunakan analisis data panel. Kajian ini menggunakan teknik data panel merangkumi dari tahun 1990 hingga 2014. Pendekatan data panel digunakan untuk meluruskan masa yang tak berubah kesan khusus negara dan untuk mendedahkan hubungan antara pembolehubah yang penting merentas masa. Keputusan yang dibentangkan bahawa model kesan tetap adalah sesuai ke atas model kesan rawak dalam model inflasi ini dikaji. Menariknya, pembolehubah, iaitu upah, import, kadar faedah dan keluaran dalam negara kasar didapati penentu penting inflasi di negara ASEAN-5. Tetapi, hanya bekalan wang yang didapati tidak signifikan dengan menjelaskan inflasi dalam sampel pengajian ini. Berdasarkan keputusan ini, kajian ini menyokong pandangan Post Keynesians inflasi dan beberapa implikasi dasar dan cadangan telah disyorkan.

Kata kunci: Inflasi; negara ASEAN-5; Model Tetap Kesan; Model Kesan Rawak, *Post Keynesians*

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Glossary of Terms

ASEAN-4:

Indonesia, Malaysia, Philippines and Thailand

ASEAN-5:

Indonesia, Malaysia, Singapore, Philippines and Thailand

M2 (Money supply):

M1 + narrow quasi – money

G-7 (Group of Seven Developed Countries):

Canada, France, Germany, Italy, Japan, United Kingdom and United States



List of Abbreviations

ADF	Augmented Dickey-Fuller
ASEAN	Association of Southeast Asian Nation
CPI	Consumer Price Index
ECM	Error Correction Model
FEM	Fixed Effect Model
FMOLS	Fully Modified Ordinary Least Square
GDP	Gross Domestic Product
GNP	Gross National Product
G-7	Group of Seven Developed Countries
GST	Goods and Services Tax
IMF	International Monetary Fund
M2	Money Supply
MAS	Monetary Authority of Singapore
OLS	Ordinary Least Square
OPEC	Organization of Petroleum Exporting Countries
POLS	Pool Ordinary Least Square
PPI	Producer Price Index
REM	Random Effect Model
WPI	Wholesome Price Index
VAR	Vector Error Correction
VECM	Vector Error Correction Model
VIF	Variance Inflation Factor

CHAPTER ONE

INTRODUCTION

1.1 Background of study

Persistent and substantial increasing in general level of prices has worrying impact. This situation has widely attracted the attention of the economists all over the world. Whitney (1982) define inflation as a “sustained increase in average prices”. Issue involving inflation has generated a huge volume of literature and heated debate in recent years. It is crucial to study inflation because the effect of inflation is terrible.

Generally the inflation rate has an impact to world economic growth of the country whether negative or positive impact. This inflation rate and world economic growth have been fluctuating. A case study of Tanzania indicated that inflation has an negative impact on economic growth (Kasadi & Mwakanemela, 2013). Whereas, Shahbaz (2013) confirms there is co-integration among economic growth, terrorism and inflation in Pakistan. Rises in inflation and economic growth raises a terrorist attack and terrorism in Pakistan.

By utilizing panel regressions, Rousseau and Wachtel (2002) found finance growth relationship in inflation threshold. Studies states that, disinflation is positive effect related to financial depth on growth. However, studied inflation threshold done by Thanh (2015) found inflation and growth has an inversely relationship.

Based to this several studies on inflation, issue of inflation still on discussing within the researchers in different context because once inflation occurs, it creates problems

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