



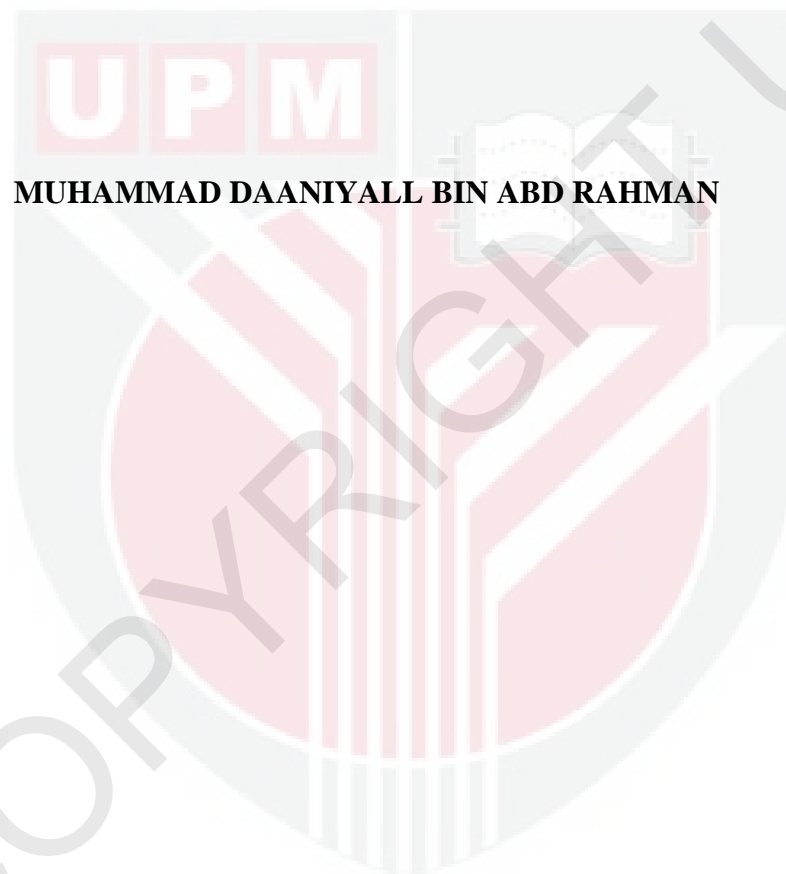
UNIVERSITI PUTRA MALAYSIA

THE RICARDIAN EQUIVALENCE HYPOTHESIS IN ASEAN-3 COUNTRIES

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By

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**Thesis Submitted to the School of Graduate Studies, Universiti Putra Malaysia, in
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Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfilment of the requirement for the Degree of Master of Science

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MUHAMMAD DAANIYALL BIN ABD RAHMAN

April 2012

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Faculty: Faculty of Economic and Management

This study is aimed to examine the existence of Ricardian equivalence hypothesis in ASEAN-3 countries namely Indonesia, Malaysia, and Thailand. By using data from 1971 to 2005, Autoregressive Distributed Lag (ARDL) Bounds test approach was employed on Bernheim (1987) and Giorgioni and Holden (2003) models. Furthermore, the effect of temporary and permanent government spending on private consumption was also examined. Finally, we analyze the effect of government debt on private consumption in contingency on the level of debt.

From the results, it can be concluded that the Ricardian equivalence hypothesis is rejected in short run for Indonesia and Malaysia whereas the in long run the hypothesis possibly existed. For Thailand, Ricardian equivalence hypothesis is denied in long run while holds in short run.

The effect of substitutability and complementarity of government spending and private consumption can be found in the estimations. Generally, Indonesia government spending likely to be substitute to private consumption due to negative relationship majorly found. On the other hand, Malaysia government spending is pertinent as complementary to private consumption rather than substitute. For Thailand case, the government spending is substantially insignificant to influence the private consumption except for positive permanent government spending effect.

In sum, Indonesia domestic debt has negative impact on private consumption while the foreign debt found to be insignificant. The interaction of the domestic debt dummy also proves the sensitivity of private consumption on domestic debt compares to insignificant foreign debt interaction. In Malaysia, the domestic debt has positive impact on private consumption especially in the long run. The impact of foreign debt found to be negative. Meanwhile, the dummy debts interaction is significant only for foreign debt which indicates the influence of external factors such as foreign exchange. For Thailand, the domestic debt is positively influence the private consumption whereas the foreign debt reacts differently. However, the dummy interaction of the debt components is thoroughly insignificant.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Master Sains

HIPOTESIS KESAMAAN RICARDIAN DALAM NEGARA-NEGARA ASEAN-3

Oleh

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Tumpuan utama kajian ini untuk menguji kewujudan usul kesetaraan Ricardo dalam negara-negara ASEAN-3 iaitu Indonesia, Malaysia, dan Thailand. Dengan menggunakan data dari tahun 1971 hingga 2005, kami menggunakan pendekatan Ujian Sempadan Autoregrasif Susulan Teragih (Autoregressive Distributed Lag Bounds test approach) ke atas model-model daripada Bernheim (1987) dan Giorgioni dan Holden (2003). Lanjutan daripada itu, kami ingin memeriksa kesan perbelanjaan sementara dan kekal kerajaan terhadap penggunaan swasta. Akhir sekali, kajian ini ingin menganalisa kesan hutang kerajaan terhadap penggunaan swasta dengan kontigensi paras hutang.

Daripada hasil kajian, kami menyimpulkan bahawa usul kesetaraan Ricardo ini ditolak dalam jangka masa pendek bagi kes Indonesia dan Malaysia manakala hipotesis ini berkemungkinan

wujud dalam jangka masa panjang. Bagi Thailand, usul kesetaraan Ricardo dinafikan dalam jangka masa panjang tetapi diterima dalam jangka masa pendek. Kesan penggantian dan pelengkap perbelanjaan kerajaan ke atas penggunaan swasta ditemui dalam analisis kami. Secara keseluruhan, perbelanjaan kerajaan Indonesia lebih utama sebagai pengganti ke atas penggunaan swasta disebabkan hubungan negatif antara kedua-dua pembolehubah tersebut. Manakala, bagi kes Malaysia, perbelanjaan kerajaan lebih sesuai dijadikan pelengkap ke atas penggunaan swasta. Bagi kes Thailand pula, perbelanjaan kerajaan kebanyakannya tidak signifikan untuk mempengaruhi penggunaan swasta kecuali kesan positif perbelanjaan kekal kerajaan.

Keseluruhannya, hutang dalam negara kerajaan Indonesia mempunyai impak yang negatif terhadap penggunaan swasta manakala tiada kesan signifikan daripada hutang luar negara. Interaksi dumi hutang dalam negara juga membuktikan sensitiviti penggunaan swasta terhadap hutang dalam negara manakala interaksi dumi hutang luar negara tidak signifikan. Di Malaysia pula, hutang dalam negara mempunyai impak yang positif ke atas penggunaan swasta terutamanya dalam jangka masa panjang. Kesan hutang luar negara pula didapati negatif. Sementara itu, interaksi dumi hutang-hutang kerajaan hanya signifikan untuk hutang luar negara sahaja yang mana menunjukkan pengaruh factor-faktor luaran seperti tukaran asing. Bagi Thailand pula, hutang dalam negara mempengaruhi penggunaan swasta secara positif manakala reaksi berbeza untuk hutang luar negara. Akan tetapi, interaksi dumi hutang-hutang kerajaan kesemuanya tidak signifikan untuk memberikan kesan ke atas penggunaan swasta.

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APPROVAL SHEET 1

I certify that an Examination Committee has met on 6th April 2012 to conduct the final examination of Muhammad Daaniyall bin Abd Rahman on his Master of Science (Economics) thesis entitled “The Ricardian Equivalence Hypothesis in ASEAN-3 Countries” in accordance with Universiti Pertanian Malaysia (Higher Degree) Act 1980 and Universiti Pertanian Malaysia (Higher Degree) Regulations 1981. The Committee recommends that the student be awarded the Master of Science (Economics)

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DECLARATION

I declare that the thesis is my original work except for quotations and citations which have been duly acknowledged. I also declare that it has not been previously and is not concurrently, submitted for any other degree at Universiti Putra Malaysia or at any other institution.

.....
MUHAMMAD DAANIYALL BIN ABD RAHMAN

Date: 6 APRIL 2012



TABLE OF CONTENTS

	Page
ABSTRACT	i
ABSTRAK	iii
ACKNOWLEDGEMENTS	v
APPROVAL	vi
DECLARATION	viii
LIST OF TABLES	xi
LIST OF FIGURES	xii
CHAPTER	
1 INTRODUCTION	
1.1 Introduction	1
1.2 Background of the Study	1
1.2.1 History and Idea	1
1.2.2 The Ricardian Equivalence Hypothesis Assumptions	4
1.2.3 ASEAN-3 and Ricardian Equivalence Hypothesis	6
1.2.4 ASEAN-3: Government Debts Separated into Domestic and Foreign Debt and the Response of the Private Consumption	11
1.2.5 Comparison between the Government Spending and Private Consumption as Proportion to the GDP	17
1.3 Problem Statement	22
1.4 Objective of the Study	24
1.5 Significance of the Study	25
1.6 Scope of the Study	26
1.7 Organization of Study	26
2 LITERATURE REVIEW	
2.1 Introduction	28
2.2 The Conceptual Framework and Some Critiques on Ricardian Equivalence Hypothesis Assumptions	28
2.3 Empirical Studies	32
2.3.1 The Validation of Ricardian Equivalence Hypothesis	32
2.3.2 The Relationship of Government Debt, Government Spending and Private Consumption	37
2.3.2.1 The Relationship between Government Debt and Private Consumption	38
2.3.2.2 The Relationship between Government Spending and Private Consumption	41
2.4 Conclusion	46
3 METHODOLOGY AND ESTIMATION PROCEDURES	
3.1 Introduction	48
3.2 The Empirical Model	48

3.2.1	Answering Main Objective	49
3.2.2	Answering First Objective	51
3.2.3	Answering Second Objective	51
3.3	Expected Sign and Relationship	52
3.4	Estimation Procedures	53
3.4.1	Stationary Test	53
3.4.1.1	Augmented Dickey Fuller (ADF) Test	54
3.4.1.2	Phillip-Perron (PP) Unit Root Test	55
3.4.2	Extracting the Temporary and Permanent Government Spending	56
3.4.3	Autoregressive Distributed Lag (ARDL) Bounds Test Approach	57
3.4.3.1	ARDL Bounds Test for Cointegration	58
3.4.3.2	Determining the Long Run Coefficient	61
3.4.3.3	Determining the Short Run Coefficient	62
3.4.4	Model Diagnostic Tests	64
3.5	Source of Data	65
3.6	Conclusion	66
4	RESULTS AND DISCUSSION	
4.1	Introduction	67
4.2	Indonesia	67
4.3	Malaysia	73
4.4	Thailand	78
4.5	Summary and Conclusion	84
5	SUMMARY, CONCLUSION AND RECOMMENDATIONS	
5.1	Introduction	88
5.2	Summary of Study	88
5.3	The Major Findings	89
5.4	Policy Implications	91
5.5	Recommendation for Future Study	94
	REFERENCES	96
	APPENDIX	105
	BIODATA OF STUDENT	111