



UNIVERSITI PUTRA MALAYSIA

**MONETARY TRANSMISSION MECHANISM AND BEHAVIOR OF
BANK NEGARA MALAYSIA**

MOHD HELMI BIN RAMLEE

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**MONETARY TRANSMISSION MECHANISM AND BEHAVIOR OF
BANK NEGARA MALAYSIA**

By

MOHD HELMI BIN RAMLEE

**Thesis Submitted to the School of Graduate Studies, University Putra Malaysia,
in Fulfilment of the Requirements for Master of Science**

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October 2010

Chair: Associate Professor Law Siong Hook, PhD

Faculty: Economic and Management

In order to achieve an effective monetary policy, recognising the main transmission mechanism channels that contributes in propagating monetary innovations to the real economic activity is essential. It is also important to ensure that there is a full pass-through from policy rate to the retail rates. This study attempts to identify the relative importance of monetary transmission mechanism channels in Malaysia. A VAR (Vector Autoregression) method is employed to study the propagation of monetary disturbances to the economy. In order to assess the relative importance of transmission channels, each channel will be exogenised and the response of output with respect to monetary shock is extracted and compared among channels. The empirical results show that the credit channel appears to be the most important channel, followed by exchange rate channel, interest rate channel and asset price channel. It is also imperative to understand the central bank behavior in its policy conduct. By using Taylor rule, Malaysia does conform to the Taylor's principle over the long term period. Other countries that were included in this study namely United States, United Kingdom, Indonesia and Thailand also conform to the Taylor's



principle aside from the Philippines. This finding suggests that the Central Bank of Malaysia has performed the appropriate policy response in the past, in order to achieve its goal in sustainable growth and price stability.



Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk Ijazah Sarjana Sains

**MEKANISME TRANSMISI MONETARY DAN TINGKAHLAKU
BANK NEGARA MALAYSIA**

Oleh

MOHD HELMI BIN RAMLEE

Oktober 2010

Pengerusi : Professor Madya Law Siong Hook, PhD

Fakulti: Economic and Management

Untuk mencapai dasar kewangan yang berkesan, mengenal pasti saluran mekanisme transmisi utama yang memberikan sumbangan dalam menyebarkan inovasi monetari untuk kegiatan ekonomi adalah sangat penting. Hal ini juga penting untuk memastikan bahawa ada pintasan penuh dari kadar dasar kepada kadar runcit. Kajian ini cuba untuk mengenalpasti kepentingan saluran mekanisme transmisi monetari di Malaysia. Kaedah VAR (Vektor Auto-regresi) digunakan untuk mempelajari perambatan gangguan monetari dalam ekonomi. Dalam rangka untuk mengadar kepentingan relatif dari saluran transmisi, setiap saluran akan diasingkan dan respon terhadap goncangan monetari akan diekstrak dan dibandingkan antara saluran. Keputusan empirik menunjukkan bahawa saluran kredit adalah saluran yang paling penting, diikuti oleh saluran kadar tukaran, saluran kadar faedah dan saluran harga aset. Hal ini juga penting untuk memahami tingkah laku Bank Negara Malaysia dalam menjalankan tugasnya. Dengan menggunakan Hukum Taylor, Malaysia sesuai dengan prinsip Taylor selama tempoh jangka panjang. Negara-negara lain yang termasuk dalam kajian ini ialah Amerika Syarikat, United Kingdom, Indonesia dan



Thailand juga sesuai dengan prinsip Taylor selain dari Filipina. Penemuan ini menunjukkan bahawa Bank Negara Malaysia telah melakukan respon dasar yang tepat di masa lalu, dalam rangka mencapai tujuan pertumbuhan yang berterusan dan kestabilan harga.

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This thesis was submitted to the Senate of Universiti Putra Malaysia and has been accepted as fulfilment of the requirement for the **Master of Science**. The members of the Supervisory Committee were as follows:

Zaleha bt Mohd Noor, PhD

Lecturer
Faculty of Economics and Management
Universiti Putra Malaysia
(Chairman)

Law Siong Hook, PhD

Associate Professor
Faculty of Economics and Management
Universiti Putra Malaysia
(Member)

Ahmad Zubaidi Baharumshah, PhD

Professor
Faculty of Economics and Management
Universiti Putra Malaysia
(Member)

HASANAH MOHD GHAZALI, PhD

Professor and Dean
School of Graduate Studies
Universiti Putra Malaysia

Date:



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 University Putra Malaysia or any other institution.

MOHD HELMI BIN RAMLEE

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