UNIVERSITI PUTRA MALAYSIA

THE RICARDIAN EQUIVALENCE HYPOTHESIS IN ASEAN-3 COUNTRIES

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MASTER OF SCIENCE
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THERICARDIAN EQUVALENCE HYPOTHESIS IN ASEAN-3 COUNTRIES

By

MUHAMMAD DAANIYALL BIN ABD RAHMAN

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Chairman: Zaleha Mohd Noor, PhD

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

MUHAMMAD DAANIYALL BIN ABD RAHMAN

April 2012

Pengerusi: Zaleha Mohd Noor, PhD

Fakulti: Fakulti Ekonomi dan Pengurusan


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

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

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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

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