

EXCHANGE RATE MISALIGNMENT, VOLATILITY AND MALAYSIAN EXPORT FLOWS

Mohd Naseem Niaz Ahmad*

Universiti Putra Malaysia

Siti Hamizah Mohd

Universiti Kebangsaan Malaysia

Tajul Ariffin Masron

Universiti Sains Malaysia

ABSTRACT

This paper investigates the effects of real exchange rate misalignment and volatility on Malaysian export flows for the pre-crisis and crisis periods over the period spanning from 1991:Q1 to 2003:Q3. A measure of the quantitative proxy of the real exchange rate misalignment is constructed through the Natural Real Exchange Rate (NATREX) equilibrium model, and the volatility of real exchange rate is generated from the GARCH (1, 1) model. This paper differs from those previously published as the effects of exchange rate misalignment in terms of overvalued and undervalued exchange rates has significantly hastened the level of Malaysian exports for both the pre-crisis and crisis periods. In the meantime, the exchange rate volatility has merely promoted the Malaysian exports during the crisis period. This suggests that the exchange rate misalignment and volatility has played an important role in inspiring Malaysian export flows, especially during the 1997 Asian financial crisis when the economy was distressed.

Keywords: Real Exchange Rate Misalignment, Volatility, Asian Crisis, ARDL Bounds Test

* Corresponding Author: Department of Economics, Faculty of Economics and Management, University Putra Malaysia, 43400 Serdang, Selangor Darul Ehsan. Tel: 603 – 8946 6000. Email: naseemniaz@econ.upm.edu.my