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MONEY, INCOME AND SEASONALITY IN A DEVELOPING ECONOMY: THE CASE FOR MALAYSIA

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I. INTRODUCTION

The concept of cointegration first introduced by Granger (1981) relates to the notion of a long-run or equilibrium relationship among two or more variables. Granger points out that the series may be unequal in the short run but they are tied together in the long-run, that is, they may move parallel to each other over time. According to Granger (1986), and Engle and Granger (1987), a very important consequences of cointegrated variables is that one variable can be used to predict the other. Granger (1986: P. 218) notes that, "if x_t, y_t are I(1) and cointegrated, there must be Granger causality in at least one direction as one variable can help forecast the other".