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AGGREGATE MONEY DEMAND FUNCTION IN MYANMAR: CO-INTEGRATION ANALYSIS

This empirical study is carried out to test the stability of aggregate demand function of money based on liquidity preference theory. This theory suggests that income and inflation is positively related to money supply while rate of interest has an inverse relation with it. Time series analysis was carried out for Myanmar covering the period from 1976 to 2016. The augmented Dickey-Fuller test affirmed that variables under consideration are facing unit root problem at level and are found free of this problem at first difference. A long-run relation among studied variables is confirmed by co-integration technique. The long-run estimates of the model are captured through the application of vector error correction model. The coefficients of national income, rate of interest and inflation have statistically significant impact on money demand. All the three explanatory variables have expected sign as proposed by the theory. Aggregate money demand function is in equilibrium and stability is verified. Only rate of interest has short-run relationship with money as compared to national income and inflation. These results verified the holding of liquidity preference theory in case of Myanmar.

This empirical study is performed to examine the validity of liquidity preference theory in Myanmar. Time series data on money, real income, real rate of interest and inflation was investigated for period 1976 to 2016. Data on all series was checked for non-stationarity problem through ADF test. Stationarity of all variables was achieved at first difference. Aggregate money demand function was tested for co-integration and one co-integration vector was confirmed by Johansen and Juselius method. Thus, a long-run relation was affirmed between the studied variables. Real income and inflation were having positive association with aggregate money while inverse relation was witnessed for rate of interest. Coefficients of these variables are statistically significant and are in accordance with the liquidity preference theory.

Key words: Demand for Money, National Income, Rate of Interest, Inflation, Co-integration, Myanmar