



UTM
UNIVERSITI TEKNOLOGI MALAYSIA

PRINCIPLES OF MACROECONOMICS

SBSD1053

GROUP ASSIGNMENT

GROUP 2

Group Members:

1. LEW YING JIE	A21BS0046
2. YON WEN TING	A21BS0156
3. HEW JUN KANG	A21BS0034
4. OOI WEI TAT	A21BS0125
5. LIU ERN QI	A21BS0048
6. LI JUNYI	A21BS4018

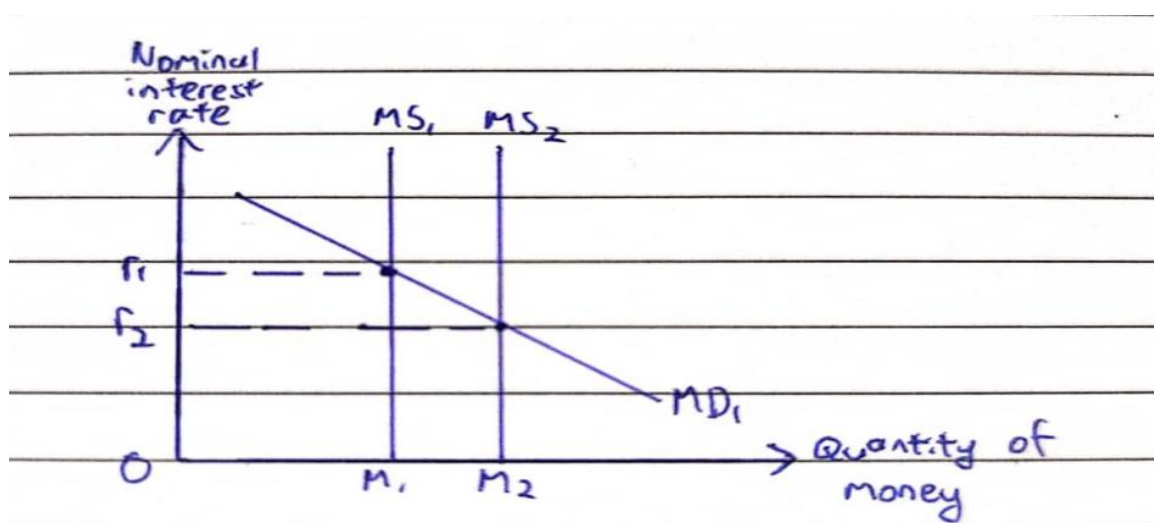
Question 1

Using appropriate policies with diagrams, kindly propose the suitable policy to stabilize the Ringgit currency in the global market.

As the issue mention that Singapore Dollars hits all-time high against Malaysia Ringgit. Therefore, the central bank needs to take action to stabilize the Ringgit currency in the global market. The policies can be applied to stabilize the Ringgit currency in the global market is monetary policies. Monetary policy is the use of central banks to control the money supply in order to stabilize a country's economy. At the same time, monetary policy aims to achieve zero unemployment, achieve higher economic growth rates, stabilize domestic prices, and maintain interest rates.

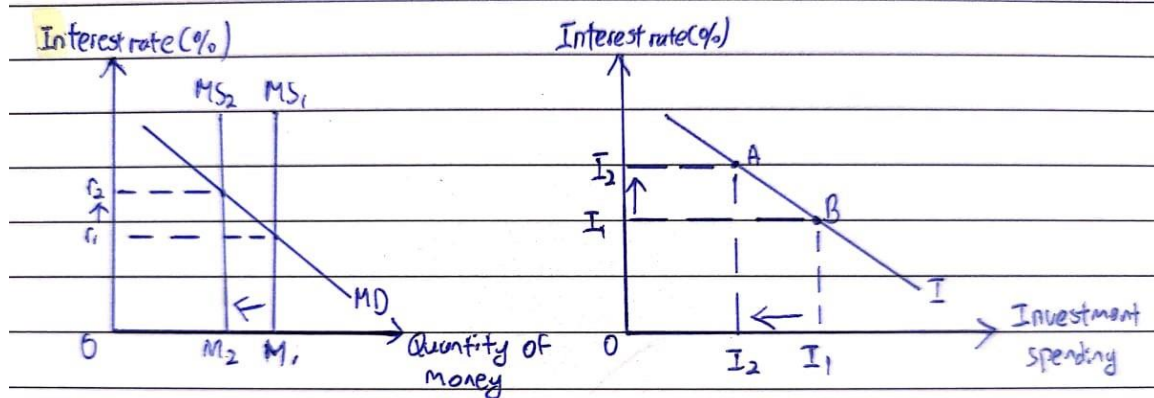
Monetary policies also divide into two type which refers to expansion monetary policies and contractionary monetary policies. Expansion monetary policies are referred to increase the money supply in the market to solve the unemployment problem and economic recession whereas contractionary monetary policies are referred to decrease the money supply in the market be able to control the inflation. There are four types of monetary policy instruments, which are open market operation, legal cash reserve requirement, selective credit control and interest rate.

Nominal Interest Rate and Money Supply



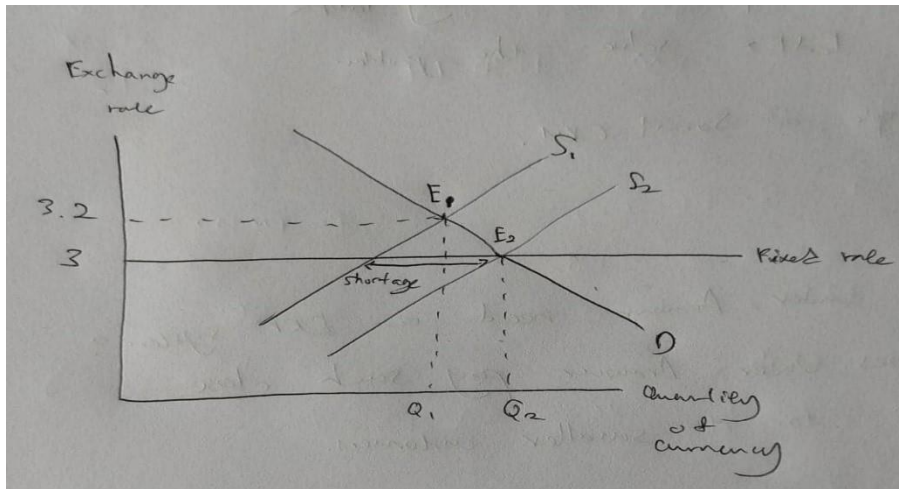
Firstly, open market operation refers to selling and buying government bond in order to control the nominal interest rate and money supply in the market. When Malaysia is facing an economic recession and climbing unemployment, the central bank will decide to buy security and bond in the market to increase the money supply in the market and the money supply curve will shift to the right from MS_1 to MS_2 . This may cause the quantity of money in the market increase and makes the nominal interest rate decrease from r_1 to r_2 . Therefore, people are more willing to spend more than make saving in the bank because of the nominal interest rate is lower. This may cause the circular of money flow in the market increase and make the ringgit currency become stable.

Interest Rate



Moreover, interest rate refers to the fees charge by the lender to a borrower. When inflation occurs, the central bank will increase interest rates to reduce the supply of money in the market. This will cause the money supply curve shift to the left from MS_1 to MS_2 . People are more likely to make saving in the bank when the interest rate increase. Therefore, the investment and consumption of the resident will decrease cause the investment spending curve shift to the left from I_1 to I_2 . The demand of the market will decrease as the interest rate increase and make the equilibrium price level going down. Thus, inflation can be solved as the interest rate is increase by the central bank. Besides, the economic of Malaysia will become better and the Ringgit currency will become more stable.

Fixed Exchange Rate



Last, the equilibrium exchange rate will happen at E_1 at curve $S_1 D$. The equilibrium exchange rate is $1 \text{ MYR} = 3.2 \text{ SGD}$, and the quantity is Q_1 . When apply the fixed exchange rate policy at $1 \text{ MYR} = 3 \text{ SGD}$ to the market, there will have a shortage of the national currency at the fixed rate due to the exchange rate cannot be allowed to move. To keep the exchange rate fixed at $1 \text{ MYR} : 3 \text{ SGD}$, the government will need to sell its own currency from its foreign exchange reserves and instead buy foreign currency. This has the effect of shifting the supply curve to S_2 , and as a result, their foreign exchange holdings will increase. The new equilibrium will be E_2 at $S_2 D$ and the quantity of currency is Q_2 .

Question 2

Since the Ringgit is depreciate over time in 2022, is it possible Malaysia's trade can perform more up-coming years and please provide 2 good trade policies to improve bilateral trade with Thailand.

In our opinion, Malaysia's trade performance can be much better in the up-coming years. Based on the statistics from the Department of Statistic Malaysia (DOSM), for the period of January to April 2022, the performance of total trade, exports, imports and trade surplus remained resilient with double-digit growths. Total trade grew by 22.9 per cent, supported by the expansion in exports (+21.8%) as well as imports (+24.3%) while trade surplus grew 12.1 per cent.

One of the reasons that the performance is getting better is the depreciation of Ringgit Malaysia. Depreciation of Ringgit Malaysia enables Thailand to buy products from Malaysia with a lower price. Thus, they will import more goods and services from Malaysia. It will happen in other countries too because they can buy more goods and services from Malaysia with a much cheaper price. Malaysia's products are more competitive in the global market.

a. Reduce or eliminate tariff

To improve bilateral trade with Thailand, Malaysia should reduce or eliminate tariffs on Thailand's goods and services. Thus, product imports from Thailand will be cheaper and be more competitive in the Malaysia market. In the long term, bilateral trade with Thailand will improve.

b. Reduce or eliminate Quota

In order for Malaysia to improve bilateral trade with Thailand, Malaysia should reduce or eliminate the quota. Quota is a legal limit on the quantity of a good that may be imported. The higher the quota is, the more limitation on trade between Malaysia and Thailand. If the quota has been reduced or eliminated, supply of goods imported from Thailand will increase, and it results in decrease of goods' prices. It will make the Thailand products more competitive in Malaysia.