

Fisher hypothesis: East Asian evidence from panel unit root tests

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Abstract

This study finds evidence supportive of Fisher hypothesis in East Asian economies using panel unit root tests, which allow for cross-country variations in the estimation. Among others, one important implication is that monetary policy will be more effective in influencing long-term interest rates and long-run macroeconomic stability in these East Asian economies under regional collaboration.

1. Introduction

Irving Fisher hypothesized that there should be a long-run relationship in the adjustment of nominal interest rate corresponding to changes in expected inflation. If Fisher hypothesis holds, then short-term interest rates will be an efficient predictor of future inflation (Granville and Mallick, 2004). More importantly, monetary authority will then be able to influence the long-term interest yields to enhance long-run stabilization of macroeconomic policy in the country. Due to its importance, the hypothesis has been subjected to rigorous research. One commonly adopted method to scrutinize the hypothesis is to examine the stationarity of the real interest rates. In this respect, if the hypothesis holds, then the real interest rate should be stationary. Empirical findings