# On the Long-Run Monetary Neutrality: Evidence from the SEACEN Countries

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**Abstract**

This paper tests the long run neutrality (LRN) and long run superneutrality (LRSN) propositions using annual observation from 10 member countries of the South East Asian Central Banks (SEACEN) Research and Training Centre. The Fisher and Seater (1993) methodology is applied to do the task. Special attention has been given in identifying the number of unit root and cointegrating vector, as a meaningful LRN (LRSN) test is critically depends on such properties. Empirical results reveal that LRN can be deviated from the case of Asian developing economies. In particular, monetary expansion seems to have long run positive effect on real output in the economies of Indonesia, Taiwan and Thailand. However, LRSN is neither fail or not addressable in our study.

**Keywords:** Neutrality and superneutrality of money; sequential unit root test; SEACEN

**JEL classification:** C12; C32; E50; O53

## 1. Introduction

The classical theory of macroeconomics asserts that there exists a 'Classical Dichotomy' in which nominal variables has no effect on real economic activity in the long run. This line of research has attracted great academic interest for a long period. There are various econometric procedures in testing this classical quantity theoretic proposition. Nevertheless, the empirical tests of monetary neutrality are always difficult to interpret, as assumptions for the underlying economic structure are required to be made. Also, the neutrality tests results are sensitive to different restrictions imposed. Moreover, some pervious findings have cast doubt in the sense that they overlook the time series properties of the data used.

Recently, the empirical studies on the long-run neutrality (LRN) and long-run superneutrality (LRSN) of money have followed the nonstructural bivariate ARIMA framework developed by Fisher and Seater (1993, henceforth FS). The only assumption in FS model is that money supply must be exogenous in the long run. The structural free model is used because neither LRN nor LRSN refers to the short run effects of money shocks. Therefore, FS argue that structural details are not relevant to LRN and LRSN. FS also consider the nonstationarity property of the data in their reduced-form model to make inferences about the neutrality propositions. Their tests are critically depending on the order of integration of money and real variables.