Abstract

This article examines the oil price-output nexus for the case of Malaysia between the years 1970 to 2014. Autoregressive Distributed Lag (ARDL) modeling approach is adopted to investigate long-run relationships among oil-price and real aggregate GDP as well as the real outputs of agriculture, manufacturing, industrial and service sectors. The outcomes of linear ARDL cointegration analysis fail to reveal any long-run relationship among the variables. Subsequently, all models are re-estimated by deploying the nonlinear ARDL approach to cointegration. The evidence of nonlinear long-run relationship is found for oil price and the Malaysian manufacturing and industrial outputs. Notably, the long-run parameter estimates reveal that oil price increase enhances outputs significantly, whereas oil price decrease has significant negative impact on these two sectoral outputs. It is suggested in this article that policymakers need to consider the nonlinear effect of oil price shocks to formulate policy which is able to maintain favorable environment that enhances economic growth.