



Regular Article

# Does Fisher Hypothesis Hold for the East Asian Economies? An Application of Panel Unit Root Tests

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This study provides evidence supportive of Fisher hypothesis in East Asian economies using panel unit root tests, which allow for the consideration of cross-country interdependence of real interest rates in the estimation. One important implication of our finding is that monetary policy will be more effective in influencing long-term interest rates and long-run macroeconomic stability in these East Asian economies with regional collaboration.

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## 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 the Fisher hypothesis holds, then short-term interest rates will be an efficient predictor of future inflation (Granville and Mallick, 2004). More importantly, the monetary authority will then be able to influence long-term interest yields in order to enhance macroeconomic stabilization. Owing to its importance, the hypothesis has been subjected to rigorous research (Evans and Lewis, 1995; Daniels *et al.*, 1996; Payne and Ewing, 1997; Lee *et al.*, 1998;