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The Effect of Macroeconomic Policies on Cambodia's Economy: ARDL and VECM Model

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Abstract : This study used Autoregressive Distributed Lag (ARDL) approach to cointegration. In the long-run the general price level and exchange rate have a positively significant effect on domestic output. The estimated result further revealed that fiscal stimulus help stimulate domestic output in the long-run, but not in the short-run, while monetary expansion help to stimulate output in both short-run and long-run. The result is complied with the theory which is the macroeconomic policies, fiscal and monetary policy; help to stimulate domestic output in the long-run. The estimated result of the Vector Error Correction Model (VECM) has indicated more clearly that the consumer price index has a positive effect on output with highly statistically significant. Increasing in the general price level would increase the competitiveness among producers than increase in the output. However, the exchange rate also has a positive effect and highly significant on the gross domestic product. The exchange rate depreciation might increase export since the purchasing power of foreigners has increased. More importantly, fiscal stimulus would help stimulate the domestic output in the long-run since the coefficient of government expenditure is positive. In addition, monetary expansion would also help stimulate the output and the result is highly significant. Thus, fiscal stimulus and monetary expansionary would help stimulate the domestic output in the long-run in Cambodia.

Keywords : fiscal policy, monetary policy, ARDL, VECM
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