



**UNIVERSITI TEKNOLOGI MARA**

**DOES FINANCIAL DEVELOPMENT REDUCE  
CO2 EMISSIONS IN MALAYSIAN ECONOMY?**

**IRDINA BINTI ADRIN  
2020960511**

**Bachelor of Business Administration (Hons)  
Investment Management**

**February 2022**

## ABSTRACT

In the country of Malaysia, this study deals with the question whether financial development reduces CO<sub>2</sub> emissions or not in case of Malaysia. The limits testing technique to cointegration between variables is used for this purpose. We show that CO<sub>2</sub> emissions, financial development, economic growth, foreign direct investment, and trade all have strong long-term correlations. Financial development also appears to lower CO<sub>2</sub> emissions, according to the findings. CO<sub>2</sub> emissions are exacerbated by increased energy usage and economic growth. The latest research paper found with similar executions results that the Granger causality analysis demonstrates the feedback hypothesis between financial development and CO<sub>2</sub> emissions, as well as between CO<sub>2</sub> emissions and economic growth was in 2013. There is no similar research paper that is more updated to this current year, however in 2020, there is a paper that conducted similarly which examines the impacts of financial development on sectoral carbon emissions (CO<sub>2</sub>) for environmental quality in Malaysia. Conclude that in general, financial development increases CO<sub>2</sub> emissions and reduces environmental quality in Malaysia. The dependant variable for this research study is CO<sub>2</sub> Emissions while the independent variables are financial development, economic growth, foreign direct investment, and trade. This study will be from the year 1971 to this recent year of 2020.

The variables examined in this study (Financial Development, Economic Growth, Foreign Direct Investment and Trade) showed a similar linkage on the CO<sub>2</sub> Emissions that has been explored in previous research. However, there is only one independent variable that has a significant impact on the CO<sub>2</sub> Emissions, and that is the Financial Development, which has a positive relationship. Others, such as Economic Growth and Foreign Direct Investment, have a negative and insignificant influence on the CO<sub>2</sub> Emissions, whereas Trade has a positive and insignificant impact

## **ACKNOWLEDGEMENT**

Assalamualaikum w.b.t,

Praises and thanks to Allah s.w.t, for showering his blessings throughout my assignment. I would like to express my gratitude and special thankfulness to Dr Juliana Mohamed Abdul Kadir and Madam Yuslizawati Mohd Yusoff for their assistance in completing this research paper. It was a great privilege and honour to work and study under their guidance. Thank you for reminding me and my colleagues regarding the deadlines as well.

Finally, this thesis is dedicated to my family and friends for helping me with my final year project. I am being overwhelmed in all humbleness and gratefulness to acknowledge my depth to all those who have help me towards the completion of this assignment. May Allah SWT bless you all.

Sincerely, Irdina Binti Adrin

## TABLE OF CONTENT

#	Content	Page
	Author's Declaration	
	Abstract	
	Acknowledgement	
	List of Tables	
	List of Figures	
	List of Abbreviations	
1.0	Introduction	
1.1	Introduction	1
1.2	Background of the study	1-2
1.3	Problem statement	3-4
1.4	Research questions	5
1.5	Research objectives	5
1.6	Significance of the study	5-7
1.7	Scope of the study	7
1.8	Limitations of the study	7
1.9	Definition of key terms	8
1.10	Summary	8
2.0	Literature Review	
2.1	Introduction	9
2.2	Literature Review on Topic	9-10
2.3	Literature Review on Financial Development	10-12
2.4	Literature Review on Economic Growth	13
2.5	Literature Review on Foreign Direct Investment	14
2.6	Literature Review on Trade	15-16
2.7	Theoretical/ Research Framework	16
2.8	Summary	16
3.0	Research Methodology	
3.1	Introduction	17
3.2	Sampling	17
3.3	Data Collection	17
3.4	Variables	18

# CHAPTER ONE: INTRODUCTION

## 1.1 Introduction

This chapter will summarise the research. Section 1.1 will outline the research context, followed by section 1.2 background of study. The problem statement and research objectives will be presented in Sections 1.3 and 1.4, respectively. Section 1.5 will be the research questions, followed by the significance of the study in Section 1.6. Scope of study and limitation of the study will be presented in Section 1.7 and 1.8. Following that, this chapter will conclude with the chapter's structure and conclusion.

## 1.2 Background of the study

Carbon Dioxide or CO<sub>2</sub> is a greenhouse gas that is natural and harmless in small quantities, but as levels rise it can affect productivity and sleep. CO<sub>2</sub> plays an important role in climate because it is one of the atmospheric "greenhouse" gases (GHGs) which keep the Earth's surface about 33 degrees warmer than the -18C temperature it would be at were they not present (Haigh, 2007). Emissions of CO<sub>2</sub> are the main contributor to anthropogenic climate change (Friedlingstein et al., 2010), which has major ramifications for humans and the environment. Through trapping solar energy in the atmosphere, carbon emissions boost global temperatures (Cairolì, 2021).

CO<sub>2</sub> emissions have climbed from 10 Gt per year in 1960 to 35 Gt in 2019. This tremendous increase can be attributed to two factors: The rise in the world's population from 3 billion in 1950 to 7.7 billion in 2019, as well as the robust economic growth of most countries over the last 60 years. The concentration of CO<sub>2</sub> molecules in the atmosphere, as measured by parts per million (ppm), increased in tandem with the growth in emissions, which are mostly caused by the burning of fossil fuels for heating, transportation, and energy generation. (*Global CO<sub>2</sub> Emissions in 2019 – Analysis - IEA, 2020*).