



UNIVERSITI TEKNOLOGI MARA

**DETERMINANTS OF FACTOR THAT AFFECT INFLATION
IN MALAYSIA**

**MUHAMMAD AZIZ FARHAN BIN NOOR AKBAR
2020974047**

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ABSTRACT

Inflation can occur when raw material and labor costs rise. Increasing product and service demand can produce inflation when customers pay more. This research examines the macroeconomic and microeconomic elements affecting Malaysia's inflation rate. Hence, the goal of this research is to look into the relationship and impacts of the five independent variables, which are the exchange rate (EXC), money supply (MS), unemployment rate (UR), Interest rate (IR), and the consumer price index (CPI) on the Inflation rate in Malaysia (INF). This research presents a study of Malaysia's inflation rate from the year 2015 to the year 2020. The whole year that has been observed for this research is five years. Moreover, this research uses secondary sources, and the data and information have been obtained via databases, other publications, and articles. All the information we gathered came from Google Scholar, Trading Economic, Investing.com, and IndexMundi. In addition, the study employs descriptive analysis, correlation analysis, regression analysis, F- test, T- test, multicollinearity test, and coefficient of determination (R²) to determine whether the independent variables are significant or insignificant to the Malaysia inflation rate. Furthermore, it determines whether the independent variables have a negative or positive relationship to Malaysia's inflation rate. The overall findings of this research shows that all independents variable impact the dependent variables.

Keywords: Inflation rate in Malaysia (INF), exchange rate, money supply, unemployment rate, Interest rate (IR) and consumer price index (CPI).

CHAPTER 1

INTRODUCTION

1.1 Preliminary Information

The economic factors are divided into monetary and non-monetary factors as well. Under the monetary factors, the money supply is one of the economic factors that caused inflation in Malaysia. "Money supply and inflation impact on economic growth" (Van 2019). If the effect of the money supply on the inflation rate is known important means, then the government should try to implement a suitable monetary policy to control the inflation rate in Malaysia due to the effect of money supply (Abidin, Haseeb, Chiat, Islam (2016).

Inflation, measured by the consumer price index (CPI), is defined as the change in the prices of a basket of goods and services that are typically purchased by specific groups of households. Inflation is measured in terms of the annual growth rate and in the index, 2015 base year with a breakdown for food, energy, and total excluding food and energy. Inflation measures the erosion of living standards. A consumer price index is estimated as a series of summary measures of the period-to-period proportional change in the prices of a fixed set of consumer goods and services of constant quantity and characteristics, acquired, used, or paid for by the reference population. Each summary measure is constructed as a weighted average of a large number of elementary aggregate indices. Each of the elementary aggregate indices is estimated using a sample of prices for a defined set of goods and services obtained in, or by residents of, a specific region from a given set of outlets or other sources of consumption goods and services OECD (2022), Inflation (CPI Accessed on 14 April 2022).

One way of looking at the topic is as a departure from the body of research that has been done on the optimal rate of inflation and the costs and benefits that are associated with it. This deviation can be better understood by considering the assertion made by Johnson (1967, page 290) that "...contrary to the assumptions of the inflation tax model, inflation does not proceed at a steady and well-anticipated rate, but proceeds erratically with large politically determined variations in the rate of price increase" (inflation does not proceed at a steady and well-anticipated rate). The endeavor to explain this more realistic pricing behavior in the postwar period has led to the formation of the body of literature that will be discussed in this article.
