UNIVERSITI TEKNOLOGI MARA

THE IMPACT OF MACROECONOMIC VARIABLES ON ECONOMIC GROWTH: EVIDENCE FROM MALAYSIA

ALYA FARZANA BINTI REDZUAN
2020964145

Bachelor of Business Administration (Hons) Investment Management

Faculty of Business and Management

AUGUST 2022

ABSTRACT

Over the last thirty years, the Malaysia economy growth has changed and improved significantly. The Malaysia's economy has evolved into a leading for economies among ASEAN countries. Several studies have proposed that macroeconomic variables have a significant impact on economic growth, while others have found an inconclusive relationship at best. The impact of macroeconomic variables on Malaysian economic growth is explored in this study, which uses GDP growth as a proxy for economic growth. Furthermore, the macroeconomic variables of inflation (INF), exchange rate (EXR), and Foreign Direct Investment (FDI) are chosen to reflect the 1980-2021 period. To examine the data, correlation and multiple regression analysis are used. GDP is statistically significant with all variables except the inflation rate, according to correlation analysis. GDP is chosen as the dependent variable in regression analysis, with EXR, IR, and FDI as the independent variables. The study examined secondary variables from 1990 to 2021 using an OLS multiple regression model. The analysis will explain the performance of Malaysia's economy. This study will be guided by information for the empirical literature on policymakers, regulators, and the investment community.

ACKNOWLEDGEMENT

I would like to express my gratitude the Almighty Allah for having to complete my final year project successfully and on time. First and foremost, I want to express my gratitude to my family and friends for their encouragement and support throughout this final year project. They are the ones who will motivate me to keep striving and working hard to complete this research.

I am grateful to my honorable advisor and research supervisor Mr. Husnizam Hosin for his guidance and valuable advice and endless cooperation to help me overcome the problems occurred through the preparation of this report and through the course of study. Without his guidance completing the report would be a tough time for me in the process.

I am very thankful to my research project coordinator, Madam Yuslizawati Mohd Yusof for her kind contribution and support in making sure that the completion of report would go smoothly. She updated all the necessary information and always reminding us on the date so we can keep track of time. Thus, I would like to give my deepest sense of regards to her.

TABLE OF CONTENTS

AUTHOR'S DECLARATION ii
ABSTRACT iii
ACKNOWLEDGEMENT iv
CHAPTER ONE: INTRODUCTION 1
1.1 INTRODUCTION 1
1.2 BACKGROUND OF STUDY 2
1.3 PROBLEM STATEMENT 3
1.4 RESEARCH QUESTIONS 3
1.5 RESEARCH OBJECTIVES 3
1.6 SIGNIFICANCE OF STUDY 3
1.7 SCOPE OF STUDY 4
1.8 LIMITATION OF STUDY 4
1.9 DEFINITION OF TERMS 4
1.9.1 GROSS DOMESTIC PRODUCT 4
1.9.2 EXCHANGE RATE 5
1.9.3 INFLATION RATES 5
1.9.4 FOREIGN DIRECT INVESTMENT 5
1.10 SUMMARY 5
CHAPTER TWO: LITERATURE REVIEW 6
2.1 INTRODUCTION 6
2.2 UNDERLYING THEORIES OF STUDY 6
2.2.1 GROSS DOMESTIC PRODUCT 6
2.3 REVIEW OF LITERATURE AND RESEARCH HYPHOTHESIS 6
2.3.1 EXCHANGE RATE 6
2.3.2 INFLATION RATE 7
2.3.3 FOREIGN DIRECT INVESTMENT 7
2.4 SUMMARY 7
CHAPTER THREE: RESEARCH METHODOLOGY 8
3.1 INTRODUCTION 8
3.2 DATA 8
3.2.1 DATA COLLECTION 8
3.2.2 SAMPLE COLLECTION 8

CHAPTER ONE: INTRODUCTION

1.1 INTRODUCTION

Economic growth is the primary concern of every country's macroeconomic policy, and Gross Domestic Product (GDP) is seen as a major determinant of this economic growth. If a country's GDP grows faster than its population, it means that the country's GDP per capita is increasing and the people's standard of living is rising. A country's GDP is impacted by a variety of factors, including interest rates, inflation, currency rates, household consumption, foreign direct investment, and several others.

The greatest way to gauge economic growth is through GDP. It takes into consideration the entire country's economic production. It comprises all commodities and services produced by businesses for sale in the country. It makes no difference whether they are sold domestically or internationally. GDP is a measure of final production. The components used to create a product are not included. Exports are included since they are manufactured in the country. Economic growth imports are eliminated. Most countries track economic growth on a quarterly basis.

Inflation has several economic ramifications for a country's economy, and most countries strive to maintain strong economic growth while maintaining low inflation. Inflation raises the prices of commodities, services, and other things, causing a country's economy to suffer. It causes the purchasing power of money to deteriorate, and hence the value of money declines concurrently. Inflationary price increases and declines in the value of money have an impact on an economy's growth. Exchange rate volatility can limit exports that help drive a country's economic growth by reducing commerce by making the projected return from exports unpredictable. A high GDP represents higher production rates, indicating that the country's products are in more demand. A rise in demand for a country's goods and services frequently leads to a rise in demand for the country's currency.

The relationships between foreign direct investment and economic growth are discussed in research issues. The previous researchers were debating this problem. According to Ang (2008), several empirical research show that FDI has a favourable influence on economic growth. These studies found a substantial positive association between foreign direct investment and economic development. According to certain research, foreign direct investment does not improve a country's economic growth. Most countries want to attain long-term, fast economic growth. It was difficult to reach such a goal due to the numerous elements that influence economic growth. The study's goal is to look at the macroeconomic causes of economic growth in Malaysia.

As can be observed, several macroeconomic phenomena impact a country's economic growth. However, the degree and direction of the effect may differ depending on the economy. As a result, the purpose of this research is to investigate the influence of macroeconomic factors on economic growth in the context of Malaysia's economy. This study will offer some light on whether and to what extent changes in macroeconomic variables affect Malaysia economic growth for the past decades.