



A STUDY ON THE DETERMINANTS OF EXCHANGE RATE IN MALAYSIA

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- This work has not previously been accepted in substance for any degree, locally or overseas, and is not being concurrently submitted for this degree or any others degree.
- This paper project is the result of our independent work and investigation, except the otherwise stated.
- All verbatim extracts have been distinguished by quotation marks and sources of our information have been specifically acknowledged.

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ACKNOWLEDGEMENT

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

In the name of Allah, the Most Compassionate, the Most Merciful

In the holy of quran has narrated in surah Ar-Ra'd surah of the thirteenth verse 11 “ *Indeed, Allah will not change the condition of a people until they change what is in themselves*”. This verse explains that human has to strive in order to upgrade their life. First and foremost, all praises to Allah for His guidance and sending His helps through the peoples that contributes to this study to be done.

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ABSTRACT

A strong currency exchange rate is one of the contributing factors in a particular country since it portrays the economic strength that the country holds. Post of Asian financial crisis on 1997 has leaved a big impact to the Asian currency exchange rate. The currency exchange rate has experienced devaluations and this spread through many Asian countries. For Malaysian currency exchange rate were affected terribly after the Asian crisis of 1997 that was caused its' value was being priced at RM4.72 per US Dollar (USD). After Ringgit Malaysia was unpegged in July 2005, the currency has appreciates moderately. In 2012, Ringgit Malaysia was at RM3.00 per USD. However, started from July 29th 2015, the currency started to depreciates to RM3.80 per USD in the year. Therefore, it is important to study the determinant factors of currency exchange rate in Malaysia. In order to fulfil the objective study, exports, imports, consumer price index , money supply and bank lending rates have been test the relationship with the currency exchange rate to test its contributing factors towards the currency exchange rate. Time-series data based on monthly data for the period of 2010 until 2019 from data stream that was provided by UiTM library. The ordinary least square model has been implemented to test the data. From the results tests, it is found that import and money supply have positive relationship with currency exchange rate. The null hypothesis 1 has been rejected because the coefficient $\beta_{\text{expt,er}}$ is significant at 99% level of confident. The result means that export has significant positive effect on currency exchange rate. While for M2 result shows the null hypothesis 1 has been rejected because the coefficient $\beta_{\text{m2t,er}}$ is significant at 99% level of confident. The result means that money supply has significant positive effect on currency exchange rate. While for import, CPI and interest rate, result shows negative relationship between currency exchange rates.

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