



**GOVERNMENT EXPENDITURE AND MONEY SUPPLY(M²) IN RELATION WITH
THE ECONOMIC GROWTH: STUDY ON MALAYSIA**

**ROZAINIE BINTI TAMMIM
2007129335**

**BACHELOR OF BUSINESS ADMINISTRATION
WITH HONOURS (BUSINESS ECONOMICS)
FACULTY OF BUSINESS MANAGEMENT
UNIVERSITI TEKNOLOGI MARA
SABAH**

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ABSTRACT

This research aims to examine the relationship between the government expenditure and money supply(M2) with the economic growth in Malaysia. The Granger Causality Test and OLS method to examine the relationship between dependent variable (Economic Growth) with the independent variables (Government Expenditure and M2).The annual data consists of the Economic Growth (change in Real GDP), the money supply by broad definition (M2), and the government expenditure covering the previous 26 years from 1984 to 2009 is analyzed in this research.

The result for Malaysia shows that the causation does not exist between the independent variables (Federal Government Expenditure and M2) and the dependent variable (economic growth). Further estimation result shows that only M2 has a significant positive relationship with the economic growth.

Chapter 1

INTRODUCTION

1.1 BACKGROUND

From the economic literature, economic system is categorized into four different system. First is the pure capitalism system, which is characterized by the private ownership of resources and the use of prices to influence the economic activity. Private ownership means that the owner have all the rights whether to use, rent, or sell resources or property. The market in this system is unregulated. Second system is the pure command system, which is characterized by the public ownership of resources. In this system all the decision in the economy are centralized to the authority (the government). This system also known as communism. Third is the mixed system, which is the combination of the two first economic systems. In this system, the ownership of resources is shared by both private and public ownership. Same goes with the market, some part is regulated, while some is unregulated. This kind of system is most commonly apply in many economy. Fourth is the economic system based on the custom or religion.

Almost all the economy in the world used the mixed system. Same goes with Malaysia. As a developing country, the involvement of Malaysia government to increase the economic activity and stabilize the economic condition is really important. Not to forget the role of the private sector. The best thing about this mixed system is that it will help to minimize the problem that created by the both pure capitalism and pure