

FACTORS INFLUENCING EXCHANGE RATE IN MALAYSIA

MUHAMMAD BAIHAQIEY AHMAD

2009770245

BACHELOR OF BUSINESS ADMINISTRATION (HONS) FINANCE

FACULTY OF BUSINESS MANAGEMENT TERENGGANU CAMPUS OF

UNIVERSITI TEKNOLOGI MARA

JUNE 2012

TABLE OF CONTENT

CONTENT		PAGE
DECLARATION OF ORIGINAL WORK		i
LETTER OF SUBMISSION		ii
ACKNOWLEDGEMENT		iii
TABLE OF CONTENT		iv
LIST OF ABBREVIATION		vii
LIST OF TABLES		vii
LIST OF FIGURE		ix
LIST OF EQUATION/MODEL		x
ABSTRACT		xi
CHAPTER 1: INTRODUCTION		
1.1	Introduction	1
1.2	Overview of Exchange Rate in Malaysia	3
1.3	Problem Statement	5
1.4	Research Objectives	6
1.5	Significant of Study	7
	1.5.1 Researcher	7
	1.5.2 University	7
	1.5.3 Banker	8
	1.5.4 Public	8
1.6	Scope of Study	9
CHAPTER 2: LITERATURE REVIEW		

2.0 Literature Review 10

2.1 Exchange Rate 10

2.2 Government Debt 12

2.3 Inflation 15

2.4 Interest Rate 18

CHAPTER 3: RESEARCH METHODOLOGY

3.0 Research Methodology 20

3.1 Theoretical Framework 20

3.2 Hypothesis 21

3.3 Data Analysis Technique 22

3.4 Model Specification 24

3.4.1 Unit Roof Test 25

3.4.2 Augmented Dickey Fuller 26

3.4.3 Philips-Perron (PP) Test 27

3.4.4 Cointegration Test 27

3.4.5 Trace Test 28

3.4.6 Maximal Eigenvalue Test 28

3.4.7 Vector Error Correction Model (VECM) 29

3.4.8 Granger Causality 29

3.5 Data Collection Method 31

CHAPTER 4: FINDING AND ANALYSIS

4.0 Result and Discussion 32

4.1 Variable Trend 32

ACKNOWLEDGEMENT

(In the name of Allah, the most gracious and merciful)

I would like to extend my greatest gratitude to all the people who have contributed one way or another, in the completion of this thesis. Without their continuous encouragement and support, in words or in kind, I would not have accomplished this far.

My special thanks to my advisor, Mdm Zuraida Mohamad who advised and guided me throughout the stages of this research. Her knowledge and experience helped me immensely in getting the research going. It was indeed a learning experience to go through the detailed analysis of the research with her. I would also like to extend my special thanks to my second advisor, Mdm Salwani who provided me with the theoretical insights of the research, particularly those relating to theories on investment analysis.

My gratitude goes beyond 'thank you' to my beloved family especially my father, Ahmad Bebakar and my mother, Wan Mazidah Abd Rahman. There also to my brothers and sisters, Muhammad Taqiyuddin Ahmad, Nusrah Alifah Ahmad, Qamar Ainiah Ahmad, Ikhwan Abdul Qadir Ahmad and lastly to my beautiful sister Anis Fathiyah Ahmad. Who had been graciously putting up with my 'mood swings' throughout the whole process of completing this thesis. As for my girlfriend, Farah Wahida Abd Wahid, it was her inquisitiveness on what I had been doing that inspired me to keep on going.

I also wish to extend my gratitude to University Teknologi MARA for being kind enough to give the opportunity for study in there. Last but not least, my sincere appreciation to my friends who have always looked forward enthusiastically to the day I would successfully complete my academic pursuit.

ABSTRACT

The exchange rate is used when simply converting one currency to another currency in different country. The objective of this study is to investigate the relationship between exchange rate with these variables such as government debt, inflation and interest rate. The data used is from year 1987 until 2010 using yearly for time variable and delta 1 year. For long run relationship shows the government debt and inflation in positive sign. But the interest rate is in negative sign toward the exchange rate. This significant or not significant can see on the short run test. In short run test, all these variables are not significant at p-value. This means that the result should be reject the null hypothesis. For the future recommendation, it is suggested about adding supplement variables such as current account. This might be giving the good result at all.

Keyword: Exchange Rate, Government Debt, Inflation, Interest Rate