UNIVERSITI TEKNOLOGI MARA
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A STUDY ON FACTORS THAT CONTRIBUTE
TO INFLATION:
A CASE STUDY OF MALAYSIA, INDONESIA AND THAILAND

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APRIL 2007

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DECLARATION OF ORIGINAL WORK

I, <u>Nur Marini Binti Mohamed Nor</u>, I/C Number: hereby, declare that:

1. 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 other degree.

2. This project paper is result of the independent investigation of the analyst, except where otherwise stated.

3. All verbatim extracts has distinguished by quotation marks and sources of information have specifically acknowledged.

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ABSTRACT

This project paper attempts to identify important factors that contribute significantly to inflation in Malaysia, Indonesia and Thailand. This study also is aimed to examine the possible existence of international and intra-ASEAN inflation transmission to Malaysia, Indonesia and Thailand and to know which variable is the most that influence inflation in each country .This study covered thirteen years period from 1993 to 2005 for research in Malaysia, twelve years period from 1994 to 2005 for research in Thailand and five years period from 2001 to 2005 for research in Indonesia. This study applied multiple linear regression programs in order to analyze the relationship between dependent variable and independent variables. From the analysis, the findings show that ASEAN inflation have significant relationship with Malaysia inflation rate. The largest effect on Malaysia Inflation rate is Thailand Inflation rate. For Indonesia, the relationship between Indonesia interest rate, Thailand inflation and both of the foreign exchange rate with the Indonesia inflation rate have significant level and the largest effect on Indonesia Inflation rate is the foreign exchange rate (Japanese Yen) while for Thailand, Thailand interest rate, Hong Kong Dollar and Malaysia Inflation rate have significant relationship with Thailand inflation rate and the largest effect on the country's inflation rate is Thailand interest rate.

1.0   INTRODUCTION

1.1   BACKGROUND OF THE STUDY

1.1.1 Consumer Price Index (CPI)

The Consumer Price Index for Malaysia or commonly known as CPI, is calculated on a monthly basis and published two weeks after the reference month. The percentages and the publication of the index number are different between Peninsular Malaysia, Sabah and Sarawak.

The CPI captures the retail price movement for different sections of consumers. Commonly, the CPI can be divided into three types and each type represents different socio-economics groups in the economy. Firstly the Consumer Price Index for Industrial Workers-CPI (W) which measures monthly movement of retail prices of various goods and services in various industrial townships. Next, the Consumer Price Index for Urban Non Manual Employees – CPI (UNME) which monitor prices goods and services in various cities on monthly basis. Lastly, the Consumer Price Index for Agricultural Labourers – CPI (AL) that is used for fixation and revision of minimum wages in agricultural. (Mohamed Yusoff, April 2003)

In Malaysia, the CPI is based on the Laspeyes formula. It measures the average rate of change in prices of fixed basket of goods and services which represents the expenditure pattern of all household in Malaysia with 2000 as the base year. It is the composite index,