

**THE EFFECTS OF MONETARY POLICY
ON THE RESIDENTIAL FINANCING
FOR THE YEAR 2000-2005**

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**Submitted in Partial Fulfillment
of the Requirement for the
Bachelor of Business Administration
(Hons) Finance**

**FACULTY OF BUSINESS MANAGEMENT
UiTM JOHOR**

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
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"DECLARATION OF ORIGINAL WORK"

I, Aimi Nazihah binti Azmi, (I/C Number: 840807115338)

Hereby, declare that,

- 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 degrees.
- This project paper is the result of my independent work and investigation, except where otherwise stated.
- All verbatim extracts have been distinguished by quotation marks and sources of my information have been specifically acknowledged.

Signature: 

Date: 12 MAY 2007

LETTER OF SUBMISSION

4 MAY 2007

Mr. Muhamad Sukor b. Jaafar
FIN 660 Course Tutor
Finance Department
Faculty of Business Management
Universiti Teknologi MARA
85009 Segamat
Johor.

Dear Sir,

SUBMISSION OF PROJECT PAPER

Attached is the project paper titled "THE EFFECTS OF MONETARY POLICY ON THE RESIDENTIAL FINANCING FOR THE YEAR 2000-2005" to fulfill the requirement as needed by the Faculty of Business Management, University Teknologi MARA.

Thank you

Yours sincerely



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ABSTRACT

Several studies show that monetary policy can influence bank to raises the quantity of bank loans available. It also reflected to residential market. The purpose of this study was to know whether the effects of monetary policy in terms of money supply (M1), interest rate (base lending rate) or import of construction materials and mineral products can influence housing loan. Housing loan here refer to the loans granted to individuals for the purchase of residential property. Monetary policy was generally referred to as either being an expansionary policy (increases in total supply of money in the economy and it was usually used to combat unemployment in a recession by lowering the interest rate) or contractionary policy (decreases the total supply of money and has the goal of raising interest rate to combat inflation). The independent variables were money supply (M1), interest rate (base lending rate) and import of construction materials and mineral products, while the dependent variable was housing loan. The data have been taken from Monthly Statistical Bulletin from Bank Negara Malaysia (BNM) which consists of 6 years (from year 2000 to 2005) using monthly basis and the statistical tool that has been use was Multiple Linear Regression.

From the results of the study, the housing loan (dependent variable) can be influenced by the (independent variables) which were money supply (M1), interest rate (BLR) and also import of construction materials and mineral products. Money supply; and import of construction materials and mineral products show the positive relationship but interest rate (BLR) shows the negative relationship with the housing loan. All of these variables were significant to each other.

CHAPTER 1

INTRODUCTION

1.0 BACKGROUND OF THE STUDY

As generally know, monetary policy was a powerful tool in the hands of policymakers which allowing them to influence the growth of the real economy. Monetary and fiscal policies were the key tools of macroeconomic management used by the Malaysian Government to manage the economy. National economic objectives can only be attained through the coordinated implementation of monetary, fiscal and other policies of the government.

Monetary policy was generally referred to as either being an expansionary policy (means increases in total supply of money in the economy and it was usually used to combat unemployment in a recession by lowering the interest rate) or contractionary policy (means decreases the total supply of money and has the goal of raising interest rate to combat inflation). Information on monetary and financial policies was released, from time to time, in the form of press releases and Monetary Policy Statements in Malaysia.

Hubbard (1997) stated that most economists and policymakers agree that the overall aim of monetary policy was to advance the economic well-being of the country's citizens. There were six monetary policy goals that were intended to promote a well-functioning economy, which were price stability, high employment, economic growth, financial market and institution stability, interest rate stability and foreign-exchange market stability.