

**VOLATILITY OF JAPAN'S EXCHANGE RATE AND MALAYSIA'S TRADE
AND FDI: A GRANGER CAUSALITY TEST**

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

**FACULTY OF BUSINESS MANAGEMENT
MARA UNIVERSITY OF TECHNOLOGY
JOHOR**

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DECLARATION OF ORIGINAL WORK



**BACHELOR OF BUSINESS ADMINISTRATION (HONS)
FINANCE FACULTY OF BUSINESS MANAGEMENT
MARA UNIVERSITY OF TECHNOLOGY
JOHOR**

"DECLARATION OF ORIGINAL WORK"

I, MUHAMMAD SUFFIAN BIN ABDUL SHUKOR, I/C Number: 850829-01-5361

Hereby, declare that,

- This work has not previously been accepted in substance for any degree, locally or overseas and 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:

LETTER OF TRANSMITTAL

Faculty of Business and Management
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25 APRIL 2008

Rabiatul Alawiyah Bt. Zainal Abidin
The Head of Program
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Dear Madam,

VOLATILITY OF JAPAN'S EXCHANGE RATE AND MALAYSIA'S TRADE AND FDI: A GRANGER CAUSALITY TEST

I'm required to do a project paper on the above topic. I hereby submitted this report and I really hope that this work will fulfill the requirement for the Bachelor of Business Administration (Hons) Finance.

Thank you.

Yours sincerely,

MUHAMMAD SUFFIAN BIN ABDUL SHUKOR
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ABSTRACT

The objective of this paper is to determine the relationships of Japan exchange rate volatility with the volatility of Malaysia's macroeconomic variables, namely trade and FDI. The paper presents empirical evidence that shows the relationship of Japan exchange rate volatility on Malaysia trade and Foreign Direct Investment (FDI) volatility. The independent variable is Japan exchange rate (Japanese yen to ringgit Malaysia) volatility and the dependent variable is Malaysia Trade (import and export with Japan) and FDI from Japan. The data collected are quarterly data between 1997 and 2007 and analyzed using Granger Causality Test.

The volatility of the variables is measured using standard deviation of growth. After the data has been tested for stationary, the data then are tested in the Granger causality test. The test uses lag 1,2,4,8 and 12. According to the result of the test, there is no evidence of Granger-causes between Japan exchange rate and export to Japan in all lag chosen. For exchange rate volatility and import to Japan volatility there is a unidirectional causality in lag 1 and bilateral causality in lag 8 and for Japan exchange rate volatility and FDI from Japan volatility, there is a unidirectional causality in lag 4 and 12 where FDI from Japan volatility Granger-causes exchange rate volatility.