THE IMPACT OF INFLATION, FOREIGN DIRECT INVESTMENT, AND EXPORT ON GROSS DOMESTIC PRODUCT IN MALAYSIA

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ABSTRACT

Gross domestic product (GDP) is a national income that could contribute income to Malaysia. Besides that, there is a current issue that will affect the growth of gross domestic product (GDP) which is inflation. By existing this current issues, the researcher want to examine the impact of inflation on gross domestic product (GDP) in Malaysia. In conducting this study, the researcher took three economic factors which is inflation, foreign direct investment (FDI) and export in Malaysia. The researcher collected the data from World Bank Data website with the period of 30 years from 1987 to 2016. In this study, the researcher used Times Series Data which included Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) test to test whether the variables have a unit root or not. After regressed the data, the researcher found out that there is positive relationship between inflation and gross domestic product (GDP) and it is significant. Besides that, the researcher found out that the foreign direct investment (FDI) and export have a positive effect on gross domestic product (GDP) and significant in Malaysia. Based on the result, it is suggested that the government must control the level of inflation, so that the government can increase taxes and decreases the government spending.

CHAPTER ONE:

INTRODUCTION

1.0 Background of Study

Nowadays, Malaysia has been a successful developing country among Asia since this country has been upgrading its economic level. A study by Aziz and Azmi (2017), based on the data taken from World Bank, the researcher said that manufacturing sector in Malaysia grown rapidly in previous years and it caused gross domestic product (GDP) to rise which is twenty-five percent. Based on the data by Bank Negara Malaysia (2013), average GDP rate is 5.8 percent per year. It shows a good condition of economic since the growth is constantly rise every year. In addition, it can say that Malaysia's economy is in a good situation which is since the rate of GDP is continuously rise. Thus, Malaysia can control its economic problems such as inflation and deflation.

According to Aziz and Azmi (2017), found out that gross domestic product (GDP) such an important thing for developing country. To be a successful country, the government have to concern about gross domestic product (GDP) whether it goes up or fall down. According to Ramlan (2017), stated that the stabilization of economy is an essential to Malaysia's resident. If the economy is unstable, people who live in Malaysia cannot survive and poverty will rise. Based on Aziz and Azmi (2017), found that Malaysia ever faced a negative growth rate which is (-7.35%) in late 1998. This happened because of financial crisis in that year. This will lead capital market faced liquidity risk. Also, according to Aziz and Azmi (2017), found that GDP has been changing which is sometimes it goes up and fall down based on current issue. For example, during inflation and unemployment, gross domestic product (GDP) also important for policy makers to understand that gross domestic product (GDP) could bring a good effect towards our economy.

Basically, inflation was a serious matter that ever happened in many countries. Based on Ramlan (2017), stated that inflation is happened when the price of goods and services rise eventually make purchasing power falls. Besides that, inflation happened based on several factors. According to Barro (1996), if that country is in high inflation, investment level will be