UNIVERSITI TEKNOLOGI MARA

THE IMPACT OF ECONOMIC FACTORS ON EXCHANGE RATE IN MALAYSIA

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Final Year Project Paper submitted in fulfillment
of the requirements for the degree of
Bachelor of Business Administration
(Finance)

FACULTY OF BUSINESS AND MANAGEMENT
MARA UNIVERSITY OF TECHNOLOGY PASIR GUDANG

December 2019

ABSTRACT

The research aims to study the impact of economic factor towards exchange rate volatility in Malaysia for the period 1989 to 2018. The reason to conduct this research is because the exchange rate is currently floating negatively in Malaysia. This research objective is to find the best factors and examine the impact on exchange rate in Malaysia for the past 30 years. The primary objective of this study is to justify which factor give more impact toward the exchange rate and as well as the factor that gives the least impact on the exchange rate. This research uses three independent variables that affect the Exchange Rate which are Gross Domestic product, Unemployment and Inflation. The statistical tests applied in this study are Descriptive Analysis, Augmented Dickey Fully (ADF) Unit Root Test, Philips-Perron (PP) Unit Root Test, Normality Test and Regression Analysis. The data for the observation has been collected through many sources such as World Data Bank, Bank Negara Malaysia (BNM) and Department Of Statistic Malaysia (DOSM). The results indicate that there is a strong significant relationship between Gross Domestic product and exchange rate. However, Unemployment and Inflation show the insignificant relationship with exchange rate volatility. The result of this study indicated that economic factors which is the increasing in gross domestic product and inflation giving significant impact towards exchange rate. Increase in GDP will increase in exchange rate, and vice versa. Higher inflation will decrease exchange rate and vice versa. In order to maintain stability of exchange rate, it is recommended to harmonize fiscal policies with monetary policy first and then make effective link of both these policies with trade policy. Finally, there are few recommendations for future research on how to expand knowledge and reliable result such as add more macroeconomic variable, longer period and research on other country.

ACKNOWLEDGEMENT

I wish to acknowledge the contribution of many people who have in one way or another made this research a reality.

My greatest appreciation goes to my advisor Madam Suhana Binti Mohamad, Lecturer of Finance, for guidance and support throughout the whole research. Her patient and advices ensured this thesis to be on the right track and proceed smoothly. I sincerely appreciate what she had done to guide me.

Most importantly, none of this could have happened without my beloved family, friends and course mates, for their helpful suggestions, advices and moral support throughout the time of completing my industrial training and report paper

Last but not least, I would like to thank to those who have helped me either directly or indirectly, throughout the completion of my industrial training and this report. It would not have been possible without them. All of contribution and mankind was mostly appreciated. Thank you.

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