



UNIVERSITI TEKNOLOGI MARA

**THE DETERMINANTS OF
MALAYSIA TRADE BALANCE**

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Final Year Project Paper submitted in fulfillment
of the requirements for the degree of
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AUTHOR'S DECLARATION

I declare that the work in this final year project paper was carried out in accordance with the regulations of University Teknologi MARA. It is original and is the results of my own work, unless otherwise indicated or acknowledged as referenced work. This thesis has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

I, hereby, acknowledge that I have been supplied with the Academic Rules and Regulations for Undergraduate, Universiti Teknologi MARA, regulating the conduct of my study and research.


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ABSTRACT

The study focus on the analysis of the main determinants that may have an impact on trade balance. Specifically, this study aims to determine the main determinants of trade balance in Malaysia by analyzing the relationship of domestic income (GDP), inflation (CPI), exchange rate (ER), foreign direct investment (FDI), government expenditure (GEX) with household consumption expenditure (HCEX). The study employs quarter data from the 1998 until 2016 that will gather from the UiTM DataStream. This study will use E-views as a tool for analyzing the data that have been collected. Increase in exchange rate will influence the domestic price, with the devaluation, we expect to have positive sign. On the other hand, the rise of household consumption expenditure might due to the risen of the income tend to worsen the trade balance. Hence we expect to have negative sign. Next, as the net income increase then we expect more good will be imported so this will lead to help improving the trade balance. Therefore, we expect to have positive sign. The rise in government expenditure will make the trade balance become worse so we expect the negative sign for this variables. For the foreign direct investment, we expect to have positive sign and lastly for the inflation, when inflation is low usually it may have higher trade deficit due to the monetary policy.

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