



UNIVERSITI TEKNOLOGI MARA

**MACROECONOMIC FACTORS
THAT EFFECT THE EXCHANGE
RATE FLUCTUATION IN
MALAYSIA**

**SYED HAZIM BIN SYED ZAINUL ABIDIN
2017842068**

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

Faculty of Business and Management

February 2021

ABSTRACT

This paper empirically investigates the macroeconomic factors that influence exchange rate fluctuation in Malaysia. The independent variables for this study are focus on macroeconomic factors that consists of employment rate, balance of payment, budget deficit or surplus, tax rate and corruption while dependent variable is exchange rate. The methodology applied for this study is using the Ordinary Least Square (OLS) method. The estimation data for this study covering the period quarterly between 2009 until 2019. The study had found that all variables except tax rate and budget deficit influence had an effect negatively towards exchange rate. Hence, tax rate and budget deficit showed significant effect on exchange rate. This was because tax rate effected on the cost of trade, import, export, and the economy of certain countries. Meanwhile, the budget deficit effect the government funding thus effect the economy, people and business owner.

ACKNOWLEDGEMENT

First of all, I want to praise God for allowing me the opportunity to start on my degree and effectively finish this long and difficult trip. My thanks and gratefulness go to my Coordinator, Dr Roslina binti Mohamad Shafi.

My gratefulness goes to my Advisor, Madam Zuraidah binti Ahmad who helping me with this project. She gives a good advice and assist me with my research and provided me all the knowledge. Special thanks to my colleagues and friends for helping me with this project, Nur Fatihah, Hanim Nazirah, Nur Rejab, and Nurasnieza.

Thank you to my panel, Sir Syamsyul and Madam Zailati for being my judge's presentation for this research.

Finally, this thesis is dedicated to the loving memory of my both of parent, Syed Zainul Abidin and Siti Mariam for the vision and determination to educate me. This piece of victory is dedicated to both of you. Alhamdulillah.

TABLE OF CONTENTS

AUTHOR’S DECLARATION	iv
ABSTRACT.....	v
ACKNOWLEDGEMENT.....	vi
CHAPTER ONE INTRODUCTION	1
1.1 Introduction	1
1.2 Background of the study	2
1.3 Problem Statement	4
1.4 Research questions	4
1.5 Research objectives	4
1.6 Significance of the study	5
1.7 Scope of the study	5
1.8 Limitation of the study	5
1.9 Definition of Terms	6
1.10 Summary	6
CHAPTER TWO LITERATURE REVIEWS.....	7
2.0 Introduction	7
2.1 Exchange Rate.....	7
2.2 Balance of Payment.....	7
2.3 Employment rate	8
2.4 Corruption	8
2.5 Budget Deficit	8
2.6 Tax.....	9
2.7 Research Framework.....	10
2.8 Summary	10

LIST OF TABLES

Table 1. 1: Definition of Terms	6
Table 4. 1: Descriptive Analysis	18
Table 4. 2: Stationary Test	20
Table 4. 3: Correlation among selected variables	20
Table 4. 4: Durbin-Watson Test.....	22
Table 4. 5: Heteroskedasticity Test.....	22
Table 4. 6: Multicollinearity Test	23
Table 4. 7: Ordinary Least Square Method.....	24