



**A STUDY ON THE MACROECONOMIC  
DETERMINANTS OF ISLAMIC AND  
COMMERCIAL BANKS' RETURN ON ASSET (ROA)  
IN MALAYSIA**

**IDA FARIDAH BINTI MASHUDIN**

**2011499824**

**BACHELOR OF BUSINESS ADMINISTRATION  
(HONS) ISLAMIC BANKING  
FACULTY OF BUSINESS MANAGEMENT  
UNIVERSITI TEKNOLOGI MARA  
JOHOR**

**10<sup>th</sup> DECEMBER 2013**

## **ACKNOWLEDGEMENT**

Alhamdulillah, all praise to the almighty Allah S.W.T, the most merciful and benevolent for giving me strength to complete this project paper.

First of all, I would like to give my deepest appreciation and thanks to my advisor, Mr Razak bin Jambari for giving any idea and guide me to complete the project paper. Without his assistance and guidance, this project paper may not be completed.

A special thanks to Dr Farha Binti Abdol Ghapar for guide me on how to regress data by using panel data estimation. Without her effort, the project paper unable to complete. I also would like to acknowledge to all the parties that help me in completing this research either directly or indirectly especially Dr. Norashikin Binti Ismail for being our second examiner for this semester with full of support and encouragement.

I would like to thank the Branch Manager and my colleagues for being very helpful during my practical training at Amanah Ikhtiar Malaysia, Kluang Branch. Next, I wish a special thanks to my beloved family for their blessing and understanding.

Lastly, my greatest gratitude is to my fellow classmates JBM229 6A and all my lecturers at Universiti Teknologi MARA, Johor for encouraging and giving knowledge with full of commitment.

## **TABLE OF CONTENTS**

A STUDY ON THE MACROECONOMIC DETERMINANTS OF ISLAMIC AND COMMERCIAL BANKS' RETURN ON ASSET (ROA) IN MALAYSIA .....	1
DECLARATION OF ORIGINAL WORK .....	3
LETTER OF SUBMISSION .....	4
ACKNOWLEDGEMENT .....	5
ABSTRACT.....	10

### **CHAPTER 1: INTRODUCTION**

1. Introduction .....	11
1.1 Background of Research.....	12
1.2 Problem Statement.....	15
1.3 Objectives of Study .....	16
1.4 Research Question .....	17
1.5 Significance of Study .....	17
1.6 Limitation of the Study.....	20
1.7 Definition of Terms .....	21
1.8 Organization of Project.....	24
1.9 Conclusion.....	24

3.4.4	Researcher Interference .....	40
3.4.5	Study Setting.....	40
3.4.6	Time Horizon.....	40
3.5	Theoretical Framework .....	41
3.6	Data Analysis.....	42
3.6.1	Unit Root Test .....	42
3.6.2	Correlation Matrix .....	42
3.6.3	Heteroscedasticity Test.....	43
3.6.4	Autocorrelation Test.....	43
3.7	Estimation.....	44
3.7.1	Multiple Regression Model .....	44
3.7.2	Coefficient of Determination ( $R^2$ ).....	46
3.7.3	Adjusted $R^2$ .....	46
3.7.4	Durbin Watson Test.....	46
3.7.5	T-Test.....	47
3.7.6	P-Value .....	47
3.7.7	F statistic.....	47
3.8	Hypotheses Statement .....	49
3.9	Expected Findings .....	52
3.10	Conclusion.....	54

## **ABSTRACT**

In Malaysia, the Banking system have growing dramatically with much of the entrance of foreign banks opened its branch in Malaysia. The competition of these banks indicates the profitability is unstable thus affect Malaysian economic. As Malaysian economy is unpredictable, there is a need to have knowledge about the economy because the macroeconomic variables keep on changing frequently which gives effect to the banks profitability and Malaysian general economy. In that respect, this paper examine the determinants of Islamic and Commercial Banks' Return on Asset (ROA) in Malaysia using the macroeconomic variables such as GDP per capita Consumer Price Index Money Supply, M2 and Unemployment during the period of 2006 until 2012 based on annual dataset. This study use for panel data of Micro Panel (Short T) with the estimation of pooled Ordinary Least Square (OLS). The empirical findings suggest that for Malaysian Islamic Banks, the GDP per capita Consumer Price Index, Money Supply, M2 and Unemployment have positive significant relationship with the dependent variable, Islamic Banks' Return on Asset (ROA). For Commercial Banks, the GDP per capita Consumer Price Index while Money Supply, M2 and Unemployment have not significantly explained the variations of Return on Asset (ROA) in Malaysia.