



**A STUDY TO DETERMINE THE RELATIONSHIP  
BETWEEN INFLATION RATE, INTEREST RATE,  
IMPORT RATE AND EXPORT RATE TOWARD  
EXCHANGE RATE IN MALAYSIA**

**ASSYAIMA BINTI MOHAMAD SALLEH  
2014622712**

**BACHELOR OF BUSINESS ADMINISTRATION  
(HONS) FINANCE  
FACULTY OF BUSINESS MANAGEMENT  
UNIVERSITI TEKNOLOGI MARA  
SEGAMAT, JOHOR.**

**JUNE 2016**

## **ACKNOWLEDGEMENT**

Foremost, I wish to count my blessings and thanked Allah S.W.T for providing me with the mental and physical faculties as well as other positive attributes notably perseverance to complete this challenging research paper. Special mention goes to my research advisor Sir Azman Ali for his guidance, supervision and support. His constructive comments and suggestions greatly assist in the successful completion of this project paper. In addition, special thanks to En. Syamsul Samsudin for his guidance and advice towards the completion of this project paper.

Last but not least, I would like to extend my appreciation to each and every one of you who have assisted in one way or another in order for me to complete this research paper. Sincere thanks to all my friends and office colleagues for their understanding, kindness and moral support during the testing time undertook to complete this assignment. Lastly, my deepest gratitude to my beloved parents for their unwavering support, invaluable assistance and sincere blessing.

Thank you.

## **ABSTRACT**

MYR has showed different volatility degree in the past two decades in line with the economic circumstances which faced by country through the time. Currency is highly uncertain and unpredictable instrument. There are ample of factors affecting movement of currency. Briefly, by using MYR against USD, four independent variables such as inflation rate, interest rate, import rate and export rate have been chosen to investigate the significant relationship towards Malaysia exchange rate. In the meantime, the study would allow to see whether the four factors can affect the fluctuation of an exchange rate. For the empirical work, correlation analysis, multiple regression and recent econometric analysis were conducted to determine the relationships of the four factors chosen toward exchange rate. The data has been collected from 1884 until 2014 by using yearly time series data. Order of integration for all the variables was checked using Augmented Dickey-Fuller tests of unit root. The empirical evidence using the regression analysis shows Inflation rate and Interest rate are the only significant independent factors that affect an exchange rate. While other independent variable shows insignificant result. The result of the causality test indicates that there is a significant relationship between the inflation and interest rate towards exchange rate. This means that any information flow regarding the inflation and interest rate in Malaysian economy will affect the volatility of exchange rate.

## Table of Contents

TITLE PA.....	i
DECLARATION OF ORIGINAL WORK.....	i
LETTER OF SUBMISSION .....	ii
ACKNOWLEDGEMENT .....	iii
ABSTRACT.....	iv
1 INTRODUCTION .....	9
1.0 RESEARCH BACKGROUND.....	9
1.1 PROBLEM STATEMENT.....	11
1.2 RESEARCH QUESTION.....	11
1.2.1 Main Research Question .....	12
1.2.2 Specific Research Question.....	12
1.3 RESEARCH OBJECTIVE .....	12
1.3.1 Main Research Objective .....	12
1.3.2 Specific Research objective .....	13
1.4 SCOPE OF STUDY .....	13
1.5 SIGNIFICANT OF STUDY .....	14
1.6 LIMITATION OF STUDY .....	14
1.6.1 Data Reliability and period constraint.....	14
1.7 SUMMARY .....	14
2 LITERATURE REVIEW .....	16
2.0 CHAPTER DESCRIPTION .....	16
2.1 EXCHANGE RATE IN MALAYSIA .....	16
2.2 INFLATION RATE.....	17
2.3 INTEREST RATE.....	18
2.4 IMPORT RATE.....	19
2.5 EXPORT RATE .....	20
3 RESEARCH METHODOLOGY.....	21
3.0 CHAPTER DESCRIPTION .....	21
3.1 DATA COLLECTION.....	21
3.1.1 Electronic sources.....	21

3.2	VARIABLE .....	23
3.2.1	Dependent variable.....	23
3.2.2	Independent variables.....	23
3.3	RESEARCH DESIGN .....	24
3.3.1	Purpose of study .....	24
3.3.2	Types of Investigation.....	24
3.3.3	Researcher Interference.....	24
3.3.4	Study setting.....	25
3.3.5	Unit of Analysis .....	25
3.3.6	Time Horizon .....	25
3.4	RESEARCH FRAMEWORK .....	26
3.5	TESTS CONSIDERATION FOR DATA ANALYSIS.....	26
3.5.1	Test for stationary: Unit Root Test.....	27
3.5.2	Normality test.....	27
3.5.3	Autocorrelation – Serial Correlation test .....	28
3.5.4	Heteroscedasticity Test – Variance of Error Term Test.....	28
3.5.5	Test on Functional Form .....	29
3.5.6	Multicollinearity .....	30
3.5.7	Multiple Linear Regression Model.....	30
3.6	CORRELATION ANALYSIS .....	31
3.6.1	Coefficient of Determination $R^2$ .....	31
3.6.2	Adjusted $R^2$ .....	31
3.6.3	F-test .....	32
3.6.4	Durbin Watson Test.....	32
3.7	HYPOTHESIS STATEMENT.....	32
3.7.1	Specific Hypothesis Statement .....	33
3.8	SUMMARY .....	34
4	FINDINGS .....	35
4.0	FINDINGS DESCRIPTIONS .....	35
4.2	DESCRIPTIVE ANALYSIS .....	35
4.3	STATIONARY TEST.....	36