



THE DETERMINANTS OF SAVINGS IN MALAYSIA

SRI NOOR AISHAH BINTI MOHD SALLEH

2012831768

BACHELOR OF BUSINESS ADMINISTRATION

(HONS) FINANCE

FACULTY OF BUSINESS MANAGEMENT

UNIVERSITI TEKNOLOGI MARA

JOHOR

JUNE 2015

Table of Contents

List of Tables	v
List of Figures	v
ABSTRACT.....	vi
CHAPTER 1: INTRODUCTION.....	1
1.0 Overview of the Study.....	1
1.1 Background of the Study.....	2
1.2 Problem Statement	3
1.3 Research Questions	4
1.3.1 Main Research Question.....	5
1.3.2 Specific Research Questions.....	5
1.4 Research Objectives	5
1.4.1 Main Research Objective.....	5
1.4.2 Specific Research Objectives.....	5
1.5 Scope of the Study.....	6
1.6 Significance of the Study	6
1.7 Limitations of Study.....	6
1.7.1 Data Availability.....	6
1.7.2 Data Accuracy.....	7
1.7.3 Time Constraint	7
1.8 Summary	7
CHAPTER 2: LITERATURE REVIEW	8
2.0 Introduction	8
2.1 Savings	8
2.2 Importance of Savings.....	9
2.3 Relationship between Gross Domestic Products (GDP) and Savings.....	10
2.4 Relationship between Age Dependency and Savings	12
2.5 Relationship between Inflation and Savings	13
2.6 Summary	15
CHAPTER 3: RESEARCH METHODOLOGY	16
3.0 Introduction	16
3.1 Research Design.....	16
3.1.1 Purpose of Study.....	16

3.1.2	Type of Investigation	17
3.1.3	Research Interference.....	17
3.1.4	Study Setting.....	17
3.1.5	Unit of Analysis	18
3.1.6	Time Horizon.....	18
3.2	Sample and Data.....	18
3.2.1	Population Sample	18
3.2.2	Data Collection	19
3.2.3	Variables	19
3.3	Research Framework.....	20
3.4	Statistical Methods.....	20
3.4.1	Test for Stationary: Unit Root Test.....	21
3.4.3	Autocorrelation - Serial Correlation Test	22
3.4.4	Heteroscedasticity Test – Variance of Error Term Test	23
3.4.6	Multi-collinearity Test	24
3.4.7	Correlation Test: Covariance Analysis	24
3.5	Hypothesis Statement.....	28
3.6	Summary	29
CHAPTER 4: DATA ANALYSIS		30
4.0	Introduction.....	30
4.1	Descriptive Analysis	30
4.2	Test of Stationary	34
4.2.1	Unit Root Test.....	35
4.3	Test of Assumption	36
4.3.1	Normality Test	36
4.3.2	Autocorrelation Test – Serial Correlation Test.....	37
4.3.3	Heteroskedasticity Test.....	38
4.3.4	Functional Form Test.....	39
4.3.5	Multicollinearity Test.....	40
4.3.7	Correlation Test: Covariance Analysis	40
4.4	Test of Hypothesis: Multiple Regression Model.....	41
4.4.1	Gross Domestic Products (X2)	43
4.4.2	Age Dependency Ratio (X3).....	43
4.4.3	Inflation (X4)	44

ABSTRACT

The objective of this study is to investigate the determinants of savings in Malaysia. Savings plays an important role in the economic development of a country. It is shown in growth theory that saving is a necessary element to finance investment which will enhance a country's productivity. Thus, it would be important to look at the determinants of savings such as the inflation rate, income level and age dependency ratio to fully understand the economic growth in Malaysia. Such information too will help financial institutions and policy makers in mobilizing savings as well as to increase the investment level in Malaysia. This study consists of dependent variables and independent variables. The dependent variable is national savings while the independent variables are inflation rate, income level and age dependency ratio. In this study, the secondary data were used and the information were gathered from the DataStream, WorldBank, Bank Negara Malaysia and Malaysian Department of Statistics. The total amount of 30 observations were collected starting from the year 1984 to 2013. Multiple Regressions Method was used in this research as the statistical method to determine how the variables are affecting other variables. The result shows that age dependency ratio and inflation variables are statistically significant. Meanwhile, gross domestic product does not have a significant relationship with national savings.

CHAPTER 1: INTRODUCTION

1.0 Overview of the Study

In the history of economic development, savings has become a central issue for economic growth (Kelley, 1976; Kelley, 1980; King, 1985; Bairamli and Kostoglou, 2010; Karlan and Morduch, 2010). Savings play a very important role in promoting real growth (The World Bank, 2007). Several empirical studies suggest that savings rate brings positive impact on the long term growth (Page, 1994; Cardenas and Escobar, 1998; Motely, 1994; Kriekhaus, 2002). Savings is crucial to a nation's economic health, both at the household and national levels (Gersovitz, 1988). One of the important goals that every country desires is to attain a rapid economic growth. This is because the quality of life and the standard of living for the people in a country is determined by the economic growth of the country.

Based on Solow (1956) and Romer (1986), high savings rate will have an impact on the capital formation of a country and hence, causing a higher economic growth. This indicates that savings rate positively correlate to economic growth. In recent years, there has been an increasing interest on the determinants of savings in developing countries (Bairamli & Kostoglou, 2010), as well as in developed countries (The Economist, 2005; Karlan, et. al., 2009). Savings are arguably affected by many variables; the main ones are income, inflation, as well as demographics (Loayza et al., 2000). However, research on the influences of inflation and income on savings have been inconsistent (Chaturvedi, Kumar and Dholaika, 2009).