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THE IMPACTS OF OIL PRICES TOWARDS ECONOMIC GROWTH IN MALAYSIA

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EXECUTIVE SUMMARY

Oil prices is one of the influential factors that contributes to the Malaysian economic growth. Therefore, this study aims to prove how much does oil prices leave an impact on Malaysian economic growth as compared to other influential variables through a multiple regression analysis method. This study only focuses on the data of 30 years, from 1988 to 2018 where the data is retrieved from various official resources from the Internet. The results from this study could determine if oil prices are really the most significant factor contributing to Malaysian economic growth.

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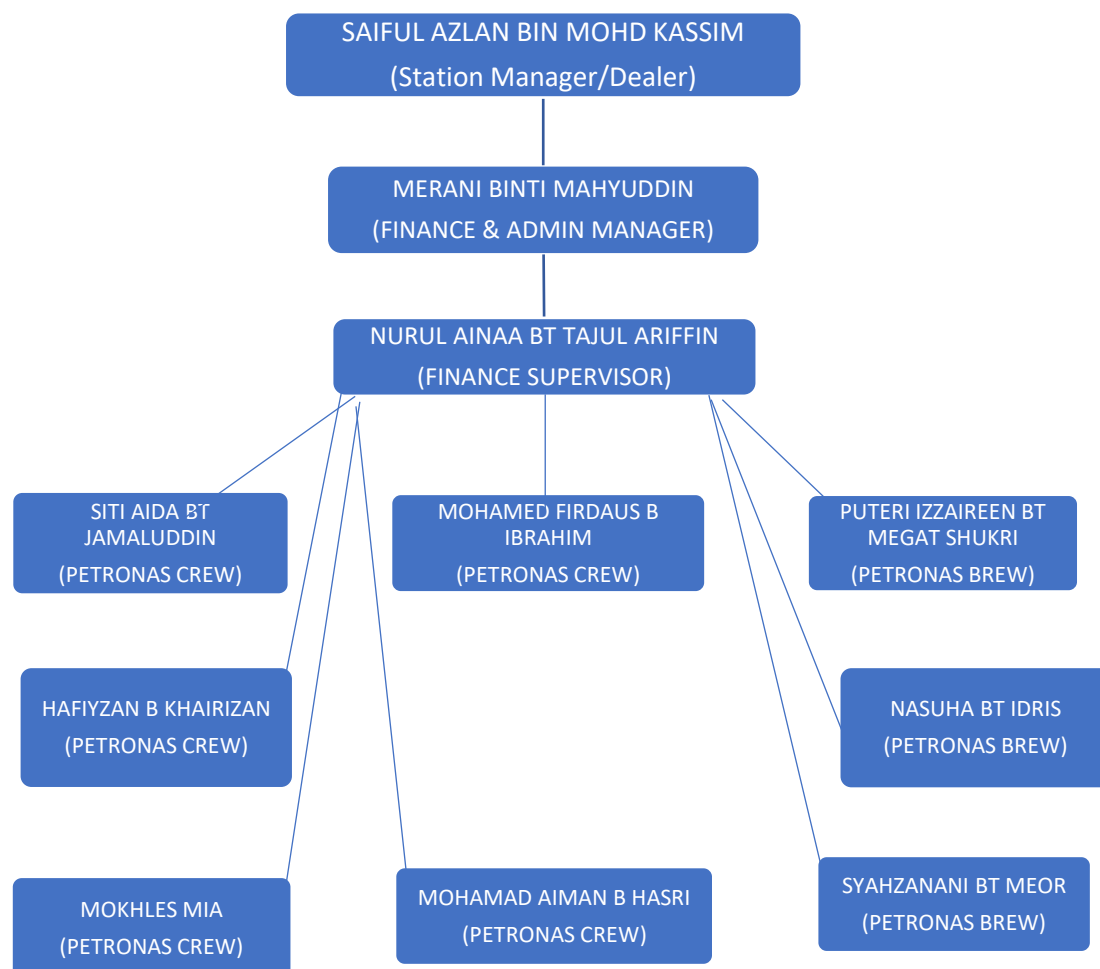
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COMPANY'S PROFILE

- Name, location, background
- Vision, Mission, Objective, Goal
- Organizational Structure

USMA Sdn. Bhd. is sole proprietorship company for a Petronas gas station branch named Petronas Jalan Gopeng 1. This company is located on PT-77344, Jalan Sultan Nazrin Shah, 31350 Ipoh, Perak. This company has started operating since 17 August 1974. This company is in the retail and services industry and the main activity of this company includes selling transportation fuel and lubricants, and also store merchandises like snacks, drinks and biscuits.

The vision for this company is to give a high-quality customer services and to provide professional job opportunities towards those who qualify. The missions of this company includes to help people get or use local products of the highest quality. Besides this company aims to be a gas station which provides the best customer service to gain customers' satisfaction.



TRAINING'S REFLECTION

For my internship, I had a pleasure working as an administrative assistant. Among the tasks that I was assigned to was to manage the monthly manual auditing of the store merchandises. I manually counted the physical inventories and generate monthly reports on the audits. I also had the opportunity to prepare purchases orders, receive or return orders and deal with suppliers. I also was assigned to acknowledge and save Delivery Notes for fuel and learn how to prepare for bank reconciliation. Besides, I also managed to build strong customer relationship and learn how to serve customers and gain their satisfaction.

Among the skills that I have gained throughout my internship in this company are clerical skills as I had to prepare reports and data input, communication skills as I need to interact with my superiors, colleagues, suppliers and customers. Besides I also had the opportunity to get my license for fuel offloading purposes and that is among the most valuable skill that I gained here.

I could also improve my time management during my internship period as I need to multi-task between being in the office as well as in the operation at most times. Overall, I really gained so much experiences and new knowledge every single day of my internship here and I am so thankful for all my colleagues and superiors who have supported me throughout my internship.

INTRODUCTION

Understanding oil price behaviour has received special attention in the current environment of rapidly rising prices and marked increase in oil price volatility. It is widely believed that high oil prices can slow down economic growth, cause inflationary pressures and create global imbalances. Volatile oil prices can also increase uncertainty and discourage much needed investment in the oil sector. (Gyagri & Marfo, 2017)

Among the factors that contributes to oil price volatility is the political events that occurred in the regions that the crude oil is located in. Among the significant events includes the Arab Oil Embargo in 1973-1974, the Iranian revolution and Iran-Iraq war in the late 1970s and early 1980s, and more recently, the Persian Gulf War in 1990. Disruptions to supply or challenges for potential development of resources from political instability can be seen in Nigeria, Venezuela, Iraq, Iran and also Libya. (U.S. Energy Information Administration, 2021)

Next, crude oil production by the Organization of the Petroleum Exporting Countries (OPEC) is another influential factor that contributes to oil prices volatility as 60% of the total internationally traded petroleum is represented by OPEC. Historically, crude oil prices are proven to increase in times when OPEC production targets are reduced. Besides, OPEC can influence international oil prices whereas in particular, indications of changes in crude oil production from Saudi Arabia, OPEC's largest producer, frequently affect oil prices. (Demirbas et al., 2017)

PROBLEM STATEMENT

A large body of research suggests that oil price fluctuations have considerable consequences on economic activity. These consequences are expected to be different in oil importing and in oil exporting countries. Whereas an oil price increase should be considered good news in oil exporting countries and bad news in oil importing countries, the reverse should be expected when the oil price decreases. Evidently, the volatility of oil prices leaves powerful impacts especially on the Malaysian economic growth.

Among the issues that arise in the Malaysian economic growth regarding oil prices is the abolition of fuel subsidy in Malaysia. The attempt of abolishing fuel subsidy in order to alleviate the increasing pressure on public finances would be a major threat to the economic growth in Malaysia. In 2014, the Malaysian government has officially stopped the subsidy of all fuels, in order to potentially save the government almost RM20 billion annually. A study by

(Ying & Harun, 2019) suggests that abolishing fuel subsidy could restrict the domestic sectors performances which would in turn, reduces domestic outputs which enters the market.

Therefore, this research attempts to study the impact of oil prices on Malaysian economic growth. Other than that, exchange rate and exports are also selected as independent variables to find a meaningful results from an annual data starting year 1988 until 2018 for a total of 31 observations.

RESEARCH OBJECTIVE

General objective

The general objective of this research is to study the impact of oil prices on Malaysian economic growth.

Specific objective

1. To examine the impact of oil prices, exchange rate and exports on Malaysian economic growth.
2. To find out the most significant independent variables that affects Malaysian economic growth.

RESEARCH QUESTIONS

1. What is the impact of oil prices, exchange rate and exports on Malaysian economic growth?
2. What is the most significant independent variables that affects the Malaysian economic growth?

SCOPE OF STUDY

This study focuses on the impacts of oil prices on Malaysian economic growth. It uses variables like oil prices, exchange rate export to achieve the objective of this study. Using time-series data from 1988 to 2018, all data are collected from sources like Bank Negara Malaysia report, Malaysian Energy Information Hub and World Databank.

LITERATURE REVIEW

The Gross Domestic Product (GDP) is defined as the total value of goods produced and services provided within a selected geographic area (usually a country) in one year [1]. Right or wrong, this has become the standard to measure the economy of a country (Faridah & Muhammad, 2018).

A previous study by (Shaari et al., 2013) suggested that oil price shocks have a positive significant relationship with important sectors in Malaysia. The agriculture, construction, manufacturing, and transportation sectors are the main economic sectors that substantially contribute to Malaysian GDP. In addition, another study by (Aimer, 2016), aims to empirically investigate the impacts of shocks in oil price on economic growth for Libya from the period 2000-2015. He found that oil price has a significant positive effect on the GDP.

Next, a study by (Halim & Malim, 2018) has performed a simple linear regression analysis between exchange rate and Malaysian GDP. The study through a linearity test shows that the exchange rate and the Malaysian economic growth have a highly positive significant relationship.

The ability of the exchange rate as the financial variables is likely to provide a positive impact on long-term economic growth Rozilee et al., 2014. However, there is also an empirical study which shows that the exchange rate has the opposite impact. Therefore, they have used a ARDL method in order to examine the relationship between foreign direct investment and exchange rate towards economic growth in Malaysia for the periods of 1970 to 2011. The results suggest that in the long run, the effect of real exchange rate is insignificant even though it is positively related to growth.

Meanwhile, according to (Haseeb et al., 2014), exports and FDI are considered as main determinants of high economic growth in Southeast Asian countries and therefore these authors have conducted a study to investigate the relationship between exports, Foreign Direct Investment (FDI) and the economic growth in Malaysia. The results indicate that Malaysia's exports are statistically, positively significant. A contrary result was found by (Adames, 1995) which examined the relationship between exports, foreign direct investment and economic growth in Malaysia from year 1980-2013. The results from this study suggest that exports and GDP have a negative significant relationship

METHODOLOGY

This paper uses a time-series data of 30 years from 1988 to 2018 based on secondary data collected from various sources like Bank Negara Malaysia official website, Malaysian Energy Information Hub and World Databank. A multiple regression analysis is used in this study in order to measure the relationship between the dependent variables and independent variables. The multiple linear regression equation for this study is as follows:

$$\ln ECON_t = \beta_0 + \beta_1 \ln OP_t + \beta_2 \ln ER_t + \beta_3 \ln X_t + \varepsilon$$

Where,

ECON = Economic growth

OP = Oil Prices

ER = Exchange Rate

X = Export

$\beta_0, \beta_1, \beta_2, \beta_3$ = Coefficients

\ln = logarithm

t = time

ε = Error term

Variables	Proxy	Unit
Economic growth	Gross Domestic Product (GDP)	RM
Oil Prices	Crude oil prices	RM
Exchange Rate	Per USD Dollars	RM
Export	Export of goods and services	RM

Hypothesis

H1 = There is no significant relationship between oil prices and Malaysian economic growth

H2 = There is no significant relationship between exchange rate and Malaysian economic growth

H3 = There is no significant relationship between export and Malaysian economic growth

FINDINGS & ANALYSIS

The software that is used to run this multiple regression analysis is Microsoft Excel version 16.0 that is running on Windows 10.

Table 1

<i>Regression Statistics</i>	
Multiple R	0.97699364
R Square	0.95451658
Adjusted R Square	0.94946286
Standard Error	0.18528579
Observations	31

Based on table 1, the adjusted R-squared or also called the coefficient of determination is 0.94 which means 94 percent of the dependent variable in this study can be explained by the independent variables which are oil prices, exchange rate and export. The other 6 percent is explained by unknown factors.

Table 2

ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	3	19.45263105	6.48421035	188.874291	0.00
Residual	27	0.92693229	0.034330826		
Total	30	20.37956334			

Table 3

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>
Intercept	-0.7153067	1.404544938	0.509280047	0.61469321	-3.59719488
LN OP	0.1672099	0.090306523	1.851581689	0.05405224	-0.01808378
LN ER	-0.1920209	0.322639669	0.595155825	0.55669509	-0.8540228

Based on table 2, the significance F is 0.00, which is less than 0.05, indicates that there is a statistically significant association between oil prices, exchange rate, export and economic growth.

Based on table 3, p-value of oil prices is 0.05 which means that oil price has a positive significant relationship with economic growth and therefore, this study rejects null hypothesis. Next, the p-value for exchange rate is 0.55 which means that the exchange rate is not a significant factor affecting economic growth and therefore, this study fails to reject the null hypothesis. Lastly, the p-value of export is 0.00 which means that export has a positive significant relationship with economic growth and thus, the study rejects the null hypothesis. For every 1 percent increase in oil price increases economic growth by 0.17 percent. Meanwhile, for export, for every 1 percent increase of export increases economic growth by 1.01%.

This is the model of this study after regression test been conducted:

$$\ln ECON_t = \beta_0 + \beta_1 \ln OP_t + \beta_2 \ln ER_t + \beta_3 \ln X_t + \varepsilon$$

DISCUSSION

Based on the estimated results, oil prices have a positive significant relationship with Malaysian economic growth. This finding is consistent with previous studies by (Aimer, 2016) and Mohd Shahidan et al. (2013). Increase in oil prices will cause in higher national income. Depending on expected duration of price increases, the change in relative prices ← what does this mean? will create incentives for suppliers of energy to increase the production and investment and thus affects the economic growth.

Next, export also shows a positive significant relationship with economic growth. This is concurred by (Haseeb et al., 2014) where Malaysia's export growth may reflect a rise in the demand for the country's output and this in turn will be realised in economic growth.

Then, the study finds that exchange rate has an insignificant relationship with Malaysian economic growth. This finding is consistent with the study conducted by Rozilee et al. (2014). This study finds that export is the most significant independent variable to explain the Malaysian economic growth.

RECOMMENDATIONS

Since the oil prices leave a significant impact on the Malaysian economic growth, this study recommends the Malaysian government and private oil companies should take extensive efforts to exploit the national oil resources for consumption and production especially in the industrial sector. New discoveries of oil wells can contribute to more supply of crude oil. More supply of national crude oil can help Malaysia to depend less on import of crude oil and in fact, enhance the Malaysian export of crude oil as well as oil goods and products. This is due to the reason that depending less on crude oil import can cushion the impacts of oil prices for the economy.

For the export sector as the most significant independent variable in this study, the study recommends that greater export opportunities should be pursued and promoted by policy makers in Malaysia. Increased investment such as, increasing the availability of credit especially for the SMEs. The government should also consider to simplify regulations on this sector especially for new exporters. These efforts are very well recommended so that the current economic constraints could be overcome.

For future researchers, this study recommends to collect more data with longer period should be chosen for analysis. This study also suggests to run other methods or analysis to strongly prove the significance of relationships between the variables chosen.

CONCLUSION

The purpose of this research is to study the impact of oil price, exchange rate and exports on Malaysian economic growth.

Comparing the results from previous researches, this study finds that oil prices and export has a positively significant relationship with Malaysian economic growth. On the other hand, this study finds that exchange rate is not a significant factor that could contribute to Malaysian economic growth. Based on the study, an increase in oil prices can lead to an increase of Malaysian economic growth but however, the Malaysian government of policy-makers should take extensive efforts in order to improve the current policies or create new ones in order to prepare for any oil price shocks.

SIGNIFICANCE OF STUDY

Government

The findings of this study would firstly benefit the Malaysian government as they are responsible in making policies and regulations in order to enhance the growth of Malaysian economy. The government can practice the recommendations stated in this study to help make decisions for the benefits of the economy.

Industry

Next, the study would benefit the oil or energy industry as Malaysia is an oil-producing country and also depend on import of crude oil.

University

This study also benefits future researchers of this topic as this study provide various information on the factors of oil prices volatility, the significance or importance of oil prices on Malaysian economy growth and the other factors and their significance in explaining the Malaysian economy growth.

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APPENDICES

Gross Domestic Product (RM)	Oil Prices (RM)	Exchange rate (RM/USD)	Export (RM)
92377368000	269.757	2.6190	61352694000
105199207100	284.3295	2.7079	75087359100
119080517600	295.780815	2.7049	88674736700
135157992900	250.82736	2.7503	105187973800
150659478400	221.5281	2.5463	114476555400
172174351000	195.99487	2.5738	135881197200
195407928600	222.568471	2.6237	174208432600
222410046500	242.054742	2.5073	209264272600
253690667000	273.42398	2.5154	232319828600
281744086500	289.815651	2.8173	262837186200
283284341800	271.04887	3.9254	327884736600
300762400000	385.7	3.8000	364860800000
356402000000	98.116	3.8000	427002200000
352579200000	82.764	3.8000	389256800000
383214800000	89.794	3.8000	415039800000
418767600000	97.736	3.8000	447845200000
474046200000	106.97	3.8000	546926400000
543548904600	152.687808	3.7869	613663358100
596441475100	179.052324	3.6661	669121907600
664914799200	256.28084	3.4354	705926604400
768425968800	104.53688	3.3292	764580742800
712575159800	204.762572	3.5231	651410620700
820517197500	234.394875	3.2175	713277922500
910660492800	307.718352	3.0564	776386728000
970433986600	320.717904	3.0862	769553228600
1017934617600	303.38688	3.1488	769853260800
1105361321400	285.477507	3.2697	815685519600
1176520055500	173.810532	3.9041	817077376700
1257197366000	148.649384	4.1732	839501778000
1371607198400	214.867018	4.2982	960286651200
1443695972500	265.945586	4.0307	991427248300