



# **FACTORS AFFECTING BANKRUPTCY IN MALAYSIA**

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## **ABSTRACT**

Personal bankruptcy is one of the main concerns by the policy maker in nowadays. The reason being is the increasing trend of bankruptcy in Malaysia will essentially become a stumbling block for Malaysia to become a “high-income status nation” by 2020. Unfortunately, the problem of bankruptcy is still increasing from year to year and this has raised the interest to study what is some of the possible relevant factors that lead to the bankruptcy. The purpose of this study is to investigate the impact of divorce rate, gross net income, lending rate, total public debt and unemployment rate on bankruptcy. This study used 30 yearly data for observations which is from 1985 until 2014. The method used for this study is Multiple Linear Regressions. This study used E-Views software in order to run all the data collected to test and analyses the results for discussions. In this study, the results show all these independent variables are significant except for marital status/ divorce rate. Based on previous studies, mostly agree that divorce rate, gross net income, lending rate, total public debt and unemployment rate plays their own roles in determined the conditions of bankruptcy.

## **CHAPTER 1 – RESEARCH OVERVIEW**

### **1.0 Introduction**

This study investigates about factors affecting bankruptcy in Malaysia. Firstly, definition and explanation on how it can happen will be stated in this chapter based on studies that have been done. Furthermore, in this chapter, it will begin with problem statement regarding the bankruptcy in Malaysia. The background of the study, problem statement, research questions, objectives and the significance of the study will be presented in this chapter. Next, on this chapter will focus more on the effect affecting bankruptcy in Malaysia. Finally, the conclusions will be presented based on the result obtained and make some comments and suggestions in regards to policy making.

### **1.1 Research background**

According to Malaysia Department of Insolvency, someone is considered officially bankrupt when he or she is unable to pay what he already borrowed. For years, many researchers and economists have a very thoughtful debate on what could lead bankruptcy rate to rise. Past researchers used cited adverse events and surveys, such as losing job, serious illness, divorce as the leading factors (Sullivan et al, 2000). Moreover, by using the debt data from the banks, White (2007) discover latest studies on personal bankruptcy showed that revolving debt especially credit card debt, is the main reason that trigger bankruptcy rates among people in a country to rise. He stated that they faced complications to pay the debt because the interest rate keeps increasing and the usage of credit card could lead people to file for bankruptcy when the