

LETTER OF SUBMISSION

July 2017

Coordinator

Faculty of Business Management

Universiti Teknologi MARA (Terengganu)

23000 Dungun

Terengganu

Dear Sir/Madam,

SUBMISSION OF PROJECT PAPER (FIN672)

Attached is the project paper title "THE FACTORS THAT INFLUENCE EXCHANGE RATE IN SELECTED ASEAN COUNTRIES" to fulfill the requirement as needed by the Faculty of Business Management, Universiti Teknologi MARA.

Thank you.

Yours sincerely,

NORHIDAYAH BINTI ALI

2015834734

Bachelor of Business Administration with Honours (Finance)

ACKNOWLEDGEMENT

I would like to take this opportunity to express our sincere thankfulness towards everyone who had helped and guided me in completing this thesis. This study is impossible to be completed without the advice, assistance and support of many people.

First of all, I would like to deliver my appreciation to University Teknologi Mara (UiTM) for offering this subject. It has given me an opportunity to participate and learn, hence, gain more experience in conducting a research.

Besides, I would like to express my deepest gratitude to my advisor, Madam Suhaily Maizan Bt Abdul Manaf, who had guided and inspired me throughout the period of this study. She had been helpful in providing useful guidance, constructive advice and valuable feedback which are critical for the completion of my study.

Lastly, I would like to express my love to all my friends and families for their encouragement and support on the way in completing this thesis. Without their assistance and understanding, I might face a lot of difficulties while doing this thesis.

TABLE OF CONTENT

	Pages
Title.	i
Acknowledgement.	ii
Table of Content.	iii-iv
List of Tables.	v
List of Figures.	vi
List of Abbreviation.	vii
Abstract.	viii
CHAPTER 1: RESEARCH OVERVIEW.	1
1.0 Introduction.	1-2
1.1 Background.	2-3
1.2 Problem Statement.	3-5
1.3 Research Question.	5
1.4 Research Objectives.	5
1.5 Scope of the Study.	6
1.6 Significance of the Study.	6
1.7 Limitation of the study.	7
1.8 Operational Definition.	7-8
CHAPTER 2: LITERATURE REVIEW.	9
2.0 Review of Literature.	9-13
CHAPTER 3: METHODOLOGY.	14
3.0 Data Collection Method.	14
3.1 Model Specification.	14-15
3.2 Framework.	15
3.3 Hypothesis Development.	16
3.4 Methodology.	16-17
CHAPTER 4: FINDINGS.	18
4.0 Descriptive Analysis.	18-19
4.1 Correlation of Coefficient Analysis.	19
4.2 Multicollinearity.	20
4.3 Heteroscedasticity.	20
4.4 POLS Regression Analysis.	21-24
4.5 Breush Pagan (BP) and Lagrangian Multiplier (LM) test.	24
4.6 REM Regression Analysis.	25-27
4.7 Hausman Fixed Test.	27

4.8 Generalized Least Squares Analysis	28-30
CHAPTER 5: RECOMMENDATION AND CONCLUSION	31
5.3 Recommendation	31
5.4 Conclusion	32
References	
Appendixes	

ABSTRACT

Exchange rate is a serious issue and could negatively impact a country economy. The purpose of this study is to determine the factors influence exchange rate in selected ASEAN countries by using data from 1990 to 2015 on a yearly basis consist of determinants such as oil prices, interest rate, inflation rate and openness. Pooled Ordinary Least Square (POLS), Random Effect and General Least Square regression model was employed to study the relationship of oil prices, interest rate, inflation rate and openness towards exchange rate. The results revealed that oil prices and interest rate has positive relationship with exchange rate. However, inflation rate and openness shows negative relationship with exchange rate. From the findings, it can be concluded that the most significant factor that influence exchange rate is interest rate with 0.000 of probability value which significantly influence the bankruptcy at the 1 per cent level of significance. The result shows that a 1% increase in interest rate leads to 590.8348% decrease in exchange rate. Exchange rate instability can have serious adverse consequences on prices, investments and international trade decisions. Therefore, studying the determinants of exchange rate is very crucial.