A STUDY OF FACTORS INFLUENCING INFLATION RATE IN MALAYSIA

MOHD SHAFFIQ BIN MOHD SANI
2007284254

BACHELOR OF BUSINESS ADMINISTRATION (HONS) FINANCE
FACULTY OF BUSINESS MANAGEMENT
MARA UNIVERSITY OF TECHNOLOGY

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"in the name of Allah, the most gracious and the merciful".

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ABSTRACT

This study uses secondary data which stands of time series type of data involving several economic indicators. By using the seemingly related regression approach, it is critical to investigate the factors affecting inflation rate in Malaysia over the period of 2006 until 2009. The study tests the relationships between the inflation rate and various macroeconomic variables in Malaysia. The study applies regression tests using E-views program in order to establish the possible causal relations between these variables. Upon performing Augmented-Dickey Fuller and Phillip-Peron unit root tests, it indicates the variables are significance at 1st difference. To prove the long or short term relationship, lag 1 chosen in Vector Auto Regression (VAR) model including testing Johansen Cointegration and Engle-Granger Causality tests. The findings do not indicates any long term relationship as there is no cointegration incurred but the Granger causality did occurs in every variables but in one direction only which means indicates short run relationship. VAR analysis chosen instead of Vector Error Correction Model (VECM) to analyze the dynamic short run relationship due to no cointegration of the model. The model generated from Ordinary Lease Square (OLS) shows significances of t-statistics for every variable and the positive and negative relations between independent and dependent variable.