Faculty of Business and Management
BBA (Hons) Finance

Letter of Transmittal

December 2016

Coordinator

Faculty of Business Management

UniversitiTeknologi MARA (Terengganu)

23000 Dungun

Terengganu.

Dear Madam,

SUBMISSION OF PROJECT PAPER (FIN672)

Attached is the project paper title "DETERMINANTS OF EXCHANGE RATE" to fulfil the requirement as needed by the Faculty of Business and Management, Universitl Teknologi MARA.

I was here submitting this report as requested and hope you will find this report according to your expectation and satisfaction.

Thank You.

Yours faithfully,

MUHAMMAD ANIQ ZHAFRAN BIN ALIAS

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Bachelor of Business Administration with Honours (Finance)

Acknowledgement

First and foremost, Alhamdulillah, with a given good health from Allah, the study has met its completion.

A million thanks to my advisor and second advisor, Madam Zuraida Mohamad and Madam A'tiqah Rashidah Abu Samah for their patience and strength by becoming a main guidance for me in completing this study. Never forget, my parents and friends, who lent me the strength, ideas, and motivation throughout the process.

Thank you.

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Abstract

Exchange rate is the result of what happen in one country. Strong currency will reflect its potential for the investment sources This paper aimed to investigate the determinants and the most influential determinants of the exchange rate in Malaysia which is Ringgit. The study use four independent variables which are Interest rate, inflation, external debt, and gross domestic product and one dependent variable which is exchange rate (RM/USD). The analysis of the trend and relationships among the variables uses quarter series from the 2007 – 2015 period. This study use Ordinary least square, Unit Root Test, and Johansen Cointegration test to find the relationship between the dependent and independent variables. The result indicates the significant relationship between dependent and dependent variables except interest rate which have no significant effect towards exchange rate. Overall, the purpose of this paper is as an additional knowledge to the necessary authorities or government in enhancing the country's economy. This paper also helpfully will benefit the investor in assessing the right opportunity in making their investment.

CHAPTER 1

1.0 INTRODUCTION

Exchange rate is the price of one nation's currency to be exchange with other currency. For an example, today, you need about 4MYR to get a USD or the other way around which is 0.23USD to be exchange with 1MYR. So, the nation with the higher value of currency which is United States (based on the example) tend to make a cheaper import and more expensive export with Malaysia. Every day, the exchange rate keep inconstantly moving or fluctuating and for those who do the currency investment will greatly receive the impact from the phenomenon. Malaysia, after the pegging of the Ringgit to the US Dollar at 3.80MYR in 1997 lost its value for about 0.20MYR, as for today, about 4MYR is equal to 1USD.

For about 20 years till today, MYR has showed many variation level of volatility in line with the economic situation that the country faced through time. However, until today, there is no clear result on whether exchange rate volatility effects trade volumes in Malaysia, or whether such influence is negative or the other way around. This thing has become the hot topic of the current economic policy debate in Malaysia, involving policymakers, academic researchers and business media. In general, their main concern is on the possible of negative impacts of the `excessive' volatility in the exchange rates.

Since the Independence Day in 1957, Malaysia used two different exchange rate regimes. Before the selective capital controls implemented by the 'Bank Negara' in 1998, the Malaysian ringgit (MYR) was traded as a free float currency, fluctuating from around 2.50 to 1 U.S. dollar, to fewer than 3.80 to the dollar by the end of 1997, resulting the year's East Asian financial crisis. In 1998, MYR fluctuated between 3.80 and 4.40 to a dollar before the Malaysia Central Bank (Bank Negara Malaysia) pegged the ringgit become 3.80.

Even today, the Malaysia Ringgit cannot avoid the harshness of the volatility. Every day, the price of the currency keeps changing either the values is going upward or downward. For the people outside this country, they accept it as the advantages when Ringgit is going down, but for the Malaysian, price going down means the goods that they