



UNIVERSITI TEKNOLOGI MARA

**FINANCIAL DEVELOPMENT AND
ECONOMIC GROWTH IN
MALAYSIA**

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ABSTRACT

This paper aims to investigate the financial development and economic growth in Malaysia. The financial developments may cause the economic growth and vice versa in Malaysia that can affect the country. The dependant variable in this study is economic growth that will be measure by Growth Domestic Product (GDP). Three selected independent variables in this study are the foreign direct investment, trade, and stock trade. The data from the sample are pooled for 30 years (1986 - 2015). The data can be obtained from the World Data Bank. Interactive software package E-view 8.0 that would be used for testing and analyzing the data collected and a multiple linear regression is used in this study. This study used quantitative secondary data which is time series and multiple regression models represented by the ordinary least squares (OLS) as the technique to look the financial development and economic growth in Malaysia. The result show foreign direct investment has negative relationship with the economic growth same with the trade has negative relationship, while the stock trade has positive relationship with the economic growth.

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CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

Financial development is one of the instrument, market and also as the lawful and regulatory development that can grant to be made by economy in the country. Fundamentally, financial development is about to reduce the cost that incurred in the economy system. This process of reducing the costs of acquiring information, enforcing contracts, and making transactions resulted in the emergence of financial contracts, markets, and intermediaries. Different types and combinations of information, enforcement, and transaction costs in distinct law, regulatory, and tax systems have motivated different financial contracts, markets, and intermediaries across countries and also throughout history.

The function financial development towards the economy country is important. This is because the function of financial development can help and also can reduce the 'cost' that incurred in the economy system. One of the functions is producing the information before the possible investment and provides a capital to the country. It also can monitor the investment and manages the corporate after providing finance and also facilitates the trading and management risk. Another function of financial development are pooling saving and mobilizing the finance. This is to ease the exchange of goods and service in the country or with other countries.

Financial developments have two situations between economic growths. When financial development causes economic growth, this line will call as the "supply-lending" and while when economic growth causes the financial development, the line is suitable with the "economic-following". Nevertheless, Duasa (2014) said the third view explained where financial development exists bi-directional causality relationship between financial development and economic growth.