



A STUDY ON DETERMINANTS OF UNEMPLOYMENT RATE IN MALAYSIA

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ABSTRACT

The unemployment has considered as a major economy problem in many development countries. In Malaysia, most of the unemployment people are among of the fresh graduate. This study is to determine the determinants of the unemployment rate (UR) in Malaysia. The underlying issue is to investigate the relationship between the unemployment rate and the other determinants such as a Gross Domestic Product (GDP), Inflation Rate (IR), Population (POP) and Foreign Direct Investment (FDI) by using the multiple regression analysis models. The analysis are carried out based on the time series for 30 years from 1979 – 2008. Using the results, conclusions are drawn the relationship among the determinants to the unemployment rate.

The findings are show there is a significant relationship between the unemployment rate and Gross Domestic Product, Inflation rate, population and Foreign Direct Investment. All of these findings are consistent with most previous study.

Chapter 1

INTRODUCTION

1.1 INTRODUCTION OF UNEMPLOYMENT RATE

1.1.1 UNEMPLOYMENT RATE

Unemployment is a person without work, available to work and is currently seeking for a job. The degree of unemployment in a nation is one indicator of the economic health of the country because many factors can negatively affect the unemployment rate in the country such as the implementation technologies, job outsourcing to other nations, corporate downsizing, illegal immigration and population growth. Changes in unemployment depend on: inflows made up of non-employed people starting to look for jobs and of employed people who lose their jobs and look for new ones; and outflows of people who find new employment and of people who stop looking for employment.

Unemployment can be classified into three types. There are frictional unemployment, cyclical unemployment rate and structural unemployment. Frictional unemployment rate is the portion of unemployment that is due to the normal working of the labor market which is used to denote short run job matching problems. Cyclical unemployment is the increases in unemployment that occurs during recession and depressions. Structural unemployment is the portion of the unemployment that is due to the changes in the structure of the economy that result in a significant loss of jobs in certain industries.

In Keynesian economics, any level of unemployment beyond the natural rate is most likely due to insufficient demand in the overall economy. During a recession, aggregate expenditure is deficient causing the underutilization of inputs (including labour). Aggregate expenditure (AE) can be increased, according to Keynes, by