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MACRCECONOMIC FACTORS AFFECTING UNEMPLOYMENT RATE IN MALAYSIA

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ABSTRACT

As early as the first decade of the twentieth century, unemployment was identified as a severe problem worldwide. This research aims to find out how all the macroeconomic factors, which are economic growth rate, inflation rate, foreign direct investment rate, and the population growth rate, affect the unemployment rate in Malaysia. The sample will be in Malaysia, and each variable will have 30 objectives from 1991-to 2020. The research method will be quantitative as we will take the data from secondary data platforms such as MacroTrend, International Labour Organization, Eikon Datastream, and other certified sources allowed. Based on the findings of this research, I found that two variables are significant towards Unemployment Rate: economic growth rate and foreign direct investment rate. The other two variables, the inflation rate, and the population growth rate, are not significant. This research will bring major implications to the government, investors, and policymakers. Furthermore, I also relate this research with some popular economic theories: Okun's Law and the Phillips Curve. Lastly, I can conclude that the variables affect the unemployment rate in Malaysia directly or indirectly.

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CHAPTER 1: INTRODUCTION

1.1 Introduction

Located in the South China Sea, Malaysia is a small country with an expanding economy. The country is divided into two parts by the South China Sea. More than 30 million people live in Malaysia, formerly a British colony. The majority of them live in or near the capital city of Kuala Lumpur, which was once a British colony. The country's economy is open and diverse, with a middle-income level above the national average. Since 2010, the country has experienced average annual growth rates of more than 5 percent, despite being hard hit by the global financial crisis in 2009 and recovering quickly. According to the World Bank, Malaysia has made significant strides toward eradicating poverty since 1990. Since the 1960s, households living below the poverty line have decreased from more than 50% to less than 1% in 2015.

According to the United Nations Department of Economic and Social Affairs, Unemployment is one of the most severe macroeconomic problems developed and developing countries face. According to MacroTrend, another definition of unemployment is someone of working age who has not been able to find work but would like to be employed full time but cannot do so because of a lack of available jobs in their area. Economic indicators are most commonly used to assess the health of a country's economy, which is the most common application of this indicator. The high unemployment rate indicates that the country's resources are not being utilised efficiently, which prevents the country from achieving its maximum output potential.

The dependent variable in this study is unemployment. It refers to the number of unemployed people in the labour force (Rayhan, Rusdarti, & Yanto, 2020). The unemployment rate is the proportion of the non-institutionalized population of 16 years and older who are unemployed, actively looking for work, and available for employment (Frumkin, 1998). According to a few researchers, the unemployment rate is defined as a