



UNIVERSITI TEKNOLOGI MARA

**IMPACT OF MONETARY POLICY TOWARDS
ECONOMIC GROWTH: EVIDENCE FROM MALAYSIA**

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ABSTRACT

The purpose of this study is to examine how monetary policy affects economic growth with Malaysia as a case study. Malaysia was chosen for this study due to the significant developmental strides the Malaysian economy has achieved over the last several decades. Primarily, the research will focus on the relationship between inflation level, interest rate, money supply and gross domestic product, which will use as the instrument for measuring economic growth. The research will use quantitative analysis to identify the impact of monetary policy on GDP and economic growth in terms of monetary policy tools, such as the inflation level, interest rate, and money supply. The sample of the study covered between 1991 and 2020. Due to data availability, the research will focus on annual series data. All data will be evaluated for stable distributions in order to clarify and justify the decision of econometric analysis. The ordinary least squares (OLS) regression estimate analysis will be performed to examine the relationship and significance of these variable.

Keywords: Monetary policy, Economic growth in Malaysia, Ordinary least square

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1.0. CHAPTER ONE: INTRODUCTION

1.1. Introduction

Through the impact on economic factors, monetary policy is a key driver of economic growth. Economic growth is important to an economy's health since it decreases poverty and improves livelihoods. Monetary policy is a combination of policies designed to adjust the value, supply, and cost of money in an economy to fit the level of economic activity. It is defined as the art of directing and moving monetary and credit facilities in order to maintain stable prices and economic growth in the economy (CBN 1992).

According to Keynesians and Monetarists, monetary policy affects economic activity through a variety of transmission channels. According to Schwartz and Friedman (1963), the central bank may expand the money supply through open market activities. It boosts commercial bank reserves and credit availability to the general public, as well as increasing the money supply. When the central bank decides to reduce the money supply, banks and non-bank entities begin purchasing the central bank's securities via open market operations.

The flow of this chapter continues with section 1.2 which explains about the background of the study. The problem statement, research questions, research objectives, the significance of the study, the scope of study, limitations of the study and definition of key terms are based on section 1.3, 1.4, 1.5, 1.6, and 1.7, 1.8, 1.9 respectively followed by a 1.10 summary. This chapter is important because it will justify the issue of this research and purpose of this research paper.

1.2. Background of the study

A good country is a country that has a good performing economic growth as it is the amount that the country earns. It is important for every country to have a good gross domestic product record. This is because it will also reflect the country's growth, as it will reflect the country's future.

In Malaysia, it has a statutory body which is Bank Negara Malaysia (BNM). Bank Negara Malaysia started their operations on 26 January 1959. Their role is to promote monetary and financial stability. The purpose of BNM is to provide a good environment for the sustainable growth of the Malaysian economy. The overview of Bank Negara Malaysia's monetary policy is to retain price stability while maintaining support of growth.