UNIVERSITI TEKNOLOGI MARA

THE DETERMINANTS OF INFLATION RATE IN MALAYSIA

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ABSTRACT

Rising prices in goods and services are often related to the economic growth of the country. Inflation is highly influenced by the increase of production cost. Inflation could affect the economy in positive or negative ways to one country. When inflation is high, the cost of living rises along with it, resulting in a slowdown in economic growth. Malaysia is not exceptional in facing higher inflation rates. Therefore, it became a serious matter over a period of time and thus this research was carried out to investigate and determine factors that triggered higher inflation rate in Malaysia as well as to investigate how independent variables influence the dependent variable. The research is performed using secondary data from an economic indicator which are gross domestic product (GDP), foreign direct investment (FDI), exchange rate (EXR). The research sample consisted of time-series data on Malaysia's inflation rate from 1991 until 2020. The result of this research showed that all of the independent variables which are gross domestic product (GDP), foreign direct investment (FDI) and exchange rate (EXR) have a positive relationship with the inflation rate. Using the economic indicators presented in this research, the government's policy to analyse the inflation rate would benefit from this research.

Keywords: ***inflation rate, gross domestic product (GDP), foreign direct investment (FDI), exchange rate***

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1.1 Introduction

The media, economists, and the general public in Malaysia have recently focused on the issue of inflation. Increasing commodity costs are influencing consumer spending and reducing purchasing power, escalating the cost of living for millions of Malaysians in the poor and middle classes. Despite the fact that the inflation rate is modest in contrast to other countries, it is connected to social well-being and economic success.

In economic perspective, inflation is defined as the percentage change in CPI from one year to another. Inflation has both positive and negative effects, depending on the economic situation of a country (Liwan & Lau, 2007). Inflation, on the other hand, has the most negative impact on consumers. By raising prices, the production of products and services exported may become less competitive in the eyes of investors. As a result, export revenue will decline, resulting in lower investment in certain industries.

This work is to examine the effect of inflation especially during COVID-19 and determine their impact on the inflation rate. This section would look at the research's background, the problems that were investigated, the nature of the research, the research's constraints, and the definitions of words used in the study. The aim of this research is to analyse the effect of inflation rate especially during COVID-19 which includes the gross domestic product, foreign direct investment and exchange rate. The data assessment method utilised in this analysis is relevant data, such as that found in the DataStream.