



**UNIVERSITI TEKNOLOGI MARA**

**FACTORS INFLUENCING INFLATION RATE  
IN MALAYSIA**

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## **ABSTRACT**

In economics, inflation is known as a rise in the general level of prices of goods and services in an economy over a period of time. When the price level increases, each unit of currency buys fewer goods and services. In short it can be said that inflation is a sustained rise in the general price level. The general price level is a price that reflects the overall price level for goods and services in an economy at a particular time. Inflation may cause many negative impacts on the economic growth of a country and the country itself. High inflation rate will increase the living cost and the living standards of people in a particular country. Over time, inflation became one of the most significant issues. It might be stated that during the last several years, Malaysia's inflation is caused by many factors. The aim of the paper is to determine factors that affect inflation in Malaysia. This paper consists of a quantitative method and the econometric model is used to identify the relationship between the dependent and independent variables. The dependent variable for this study is the inflation rate in Malaysia. Meanwhile, the independent variable for the study is Gross Domestic Product (GDP), Money Supply, unemployment rate, and Foreign Direct Investment (FDI). The main objective of this study is to determine whether or not macroeconomic variables will have a significant impact on the inflation rate in Malaysia. The timeframe of the study is 1991 to 2020. Lastly, secondary information had been gathered to conduct the study.

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## CHAPTER ONE: INTRODUCTION

### 1.1 INTRODUCTION OF STUDY

The overview of the research is outlined in this chapter. Started off with the introduction of study and background of study. Problem statement, research question, research objective and scope of study are followed after that. Last but not least, the significance of study is also included.

Inflation is a monetary phenomenon, and persistent inflation has piqued the interest of economists throughout the globe. According to Amadeo (2012), inflation occurs when the price of the majority of goods and services continues to rise. In most cases, inflation is characterized as a steady and persistent rise in the overall price level, which results in a loss of buying power (Yen Chee Lim and Siok Kun Sek, 2015). Because we have to spend a lot of money to receive the same number of things, this condition may lead the cost of living to fall. In order to achieve the fundamental goal of preserving price stability, countries throughout the world are increasingly implementing inflation targeting policies (Gathogo & Sohn, 2015).

Inflation may be classified into four types: creeping inflation, walking inflation, running inflation, and jumping or hyper-inflation (Siok Kun Sek 2015). According to economists, creeping inflation is a moderate kind of inflation that is not harmful to the economy and is a valuable tool for economic progress. When prices grow slowly and the annual inflation rate is in the single digits, this is known as walking inflation. While runaway inflation is defined as an annual inflation rate in the double digits that is considered an indication of hyperinflation.

Inflation has both beneficial and bad effects, depending on the economic situation of a country (Liwana & Lau, 2007). The study of inflation causes is significant because the findings will contribute to a better understanding of shock transmission and the interaction between inflation and economic variables. In general, inflation has been one of the most important issues over time. It may be said; many causes have contributed to Malaysia's inflation during the last few years. Besides, another economic indicator closely related to inflation is the national income or the Gross Domestic Product (Maymunah et al, 2005). Various studies done on determinants of inflation,