

MONEY SUPPLY: THE IMPACT ON UNEMPLOYMENT IN  
MALAYSIA

BY:

MEGAT ZUBAIRY BIN MEGAT TAJUDDIN  
ADVANCED DIPLOMA IN BUSINESS STUDIES (FINANCE)  
MARA INSTITUTE OF TECHNOLOGY

A Project paper submitted to MARA Institute of  
Technology in partial fulfillment of the  
requirement for the Advanced Diploma In  
Business Studies (Finance)

NOVEMBER 1994

## ACKNOWLEDGEMENT

Alhamdullillah, finally this project paper on "Money Supply: The Impact on Unemployment in Malaysia" has been completed.

First of all, I would like to dedicate special gratitude to my adviser Puan Hajjah Raskinah Bt. Md. Noor for her invaluable guidance while preparing this project paper. I also would like to thank my classmates and all person who are directly or indirectly involve while preparing this project paper.

Lastly, to my parents for their loving, understanding and encouragement.

MEGAT ZUBAIRY BIN MEGAT TAJUDDIN

## Abstract

There is no doubt that money plays a vital role in an economy as the quantity of money and credit affects the level of output of goods and services. Presently, Malaysia is experiencing a rapid growth in its economy, relatively money supply will also increase which simultaneously increase its GDP and GNP.

The increase in money supply has lead to the decrease in unemployment rate. However the central bank through monetary policy has control the circulation of money in the economy as the excess of money supply will lead to inflationary pressure in the country.

# MONEY SUPPLY: THE IMPACT ON UNEMPLOYMENT IN MALAYSIA

ACKNOWLEDGEMENT	i
EXECUTIVE SUMMARY	ii
LIST OF TABLE	iii
LIST OF FIGURE	iv
LIST OF APPENDICES	v

TABLE OF CONTENT	Page
------------------	------

CHAPTER 1: INTRODUCTION	1
-------------------------	---

1.1 Introduction	1
1.2 Objective of study	2
1.3 Methodology	3
1.4 Scope and Limitation	4

CHAPTER 2: LITERATURE REVIEW	5
------------------------------	---

2.1 Introduction	
2.2 Keynesian Unemployment	8
2.3 The Natural Rate of Unemployment	11
2.4 The Friedman-Phelps Model	12
2.5 Unemployment - An Overview	17
2.5.1 Concept and Measurement of Unemployment	17
2.6 The Main Form of Unemployment	19
2.6.1 Demand deficient	19
2.6.2 Structural	20
2.6.3 Technological	21
2.6.4 Frictional	21
2.6.5 Seasonal	22

CHAPTER 3: LABOUR MARKET IN MALAYSIA	23
--------------------------------------	----

3.1 Introduction	23
3.2 Structure of the Labour Market	24
3.2.1 Sectoral	24
3.2.2 Educational	26
3.2.3 Occupational	26
3.2.4 Demographic	27
3.3 Factors Influencing Labour Supply	29
3.3.1 Demographic	29
3.3.2 Labour Force Participation Rate	30
3.3.3 Migration	30
3.4 Factors Influencing Labour Demand	32
3.4.1 Economic Growth	32
3.4.2 Technological Changes	33

## CHAPTER 1

### INTRODUCTION

#### 1.1 INTRODUCTION

Unemployment or inflation, either separately or in combination, have been the focus of macroeconomics, since its birth. Indeed, the problems of explaining the causes of unemployment and prescribing cures were the reason for the creation of macroeconomics as distinct from the much older subject of monetary theory which focused on the more established problem of inflation.

The subsequent determination of economic performance, in terms of higher unemployment, accounts for a large part of the accompanying disillusion with the subject and its practitioners. Unlike many other dimensions of economic achievement and failures, unemployment is readily measurable, painful experience and therefore of direct and immediate concern to participant in all market.