UNIVERSITI TEKNOLOGI MARA

THE RELATIONSHIP BETWEEN MACROECONOMIC VARIABLES AND EXCHANGE RATE IN MALAYSIA

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ABSTRACT

The exchange rate is the value where the two currencies are traded for one another. It can be either a fixed or floating system. Moreover, the exchange rate has a crucial role in trade in the country, critical in a free market economy. Most of the Asian economies have managed floats exchange rate policy after the Asian Financial Crisis in 1997. Exchange rate stability is important for achieving macroeconomic policy objectives in both developed and emerging economies. Malaysia lacked studies in exchange rate volatility research as a developing country compared with other developing and developed countries, such as the United Kingdom, Brazil, or Indonesia. Only a few studies have been carried out to investigate the relationship for developing countries, mainly due to insufficient time series data. This research used 30 observations based on the annual data from 1990 until 2019 with time-series data. The data has been collected from World Bank Open Data. The foreign direct investment, government spending, the gross domestic product (GDP), lending interest rate are independent variables. The exchange rate volatility acts as the dependent variable. The methodology used in this study is by using Eviews. The t-test, f-test, coefficient of determination, and other tests to carry out the hypothesis statement. It was found that all independent variables have a significant relationship with the exchange rate volatility in this study.

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CHAPTER ONE
INTRODUCTION

1.1 Introduction

This study aims to discuss the relationship between macroeconomic variables and exchange rate volatility in Malaysia. It will discuss the background of the study, problem statement, research question, research objective, the significance of the study, study scope, and chapter one's overview.

The exchange rate is the value where the two currencies are traded for one another. It can be either a fixed or floating system. Moreover, the exchange rate has a crucial role in trade in the country, critical in a free market economy. Most of the Asian economies have managed floats exchange rate policy after the Asian Financial Crisis in 1997. In both developed and emerging economies, exchange rate stability is essential for achieving macroeconomic policy objectives. Governments have implemented numerous exchange rate management policies to establish a reasonable and stable exchange rate, especially for emerging economies. Exchange rate volatility is linked to unpredictably movement relative prices in the economy. Both movements and changes that result in a currency's depreciation or appreciation are referred to as volatility.

The exchange rate has a significant role in international trade because it is fixing the prices and establishing the nature of hedging to be organized to prevent exchange rate risk. Exchange rate fluctuation is a risk that is combined with unpredicted movement in the exchange rate. It is also an active variable because it can be determined by a broad range of economic, financial, political, and social factors. The exchange rate also is not a constant variable, so it fluctuates due to those factors.

The exchange rate is an important variable that affects the entire economy, and it has sparked numerous discussions among policymakers, academics, and other economic agents. The topic of whether to have a fixed, pegged, or floating exchange rate system was highly debated in the 1970s, and most European currencies have been floating since then before the euro was introduced recently. The discussion is still