UNIVERSITI TEKNOLOGI MARA

THE ANALYSIS OF FACTORS AFFECTING GOLD PRICE IN MALAYSIA

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ABSTRACT

Recently, the price of gold has been dramatically shifting. As a result, our inquiry will focus on determining the factors that impact Malaysian gold prices. There are four independent variables inflation rate, exchange rate, interest rate, and gross domestic product. This project compiles data from 1980 until 2020. Additionally, multiple linear regression models are constructed to compare the model's conclusions. This research information is from the database which is investing.com and trading economics website. The research methodology for this analysis is focused on descriptive analysis, correlation analysis, regression analysis and multicollinearity test, autocorrelation analysis and normality analysis.

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TABLE OF CONTENTS

AUTHOR'S DECLARATION i
ABSTRACT ii
ACKNOWLEDGEMENT iii
1.1Introduction 1
1.2 Background of Study 2
1.3Problem Statement 3
1.4Research Questions 4
1.5Research Objectives 4
1.6Significance of Study 5
1.7Scope of Study 5
1.8Limitation of study 5
1.9Definition of Terms 6
1.10Summary 6
CHAPTER TWO: LITERATURE REVIEW 7
2.1Introduction 7
2.2Price of Gold 7
2.3Interest Rate 8
2.4Inflation Rate 10
2.5Exchange Rate 11
2.5 Gross Domestic Product 12
2.6Summary 13
CHAPTER THREE: RESEARCH METHODOLOGY 14
3.2Research Design 14
3.3Variables 16
3.3.1Dependent Variables 16
3.3.2Independent Variables 16
3.4Theoretical Framework 16
3.5 Methodology 17
3.5Hypothesis Statement 18
3.6Test Consideration 18
3.7Descriptive Analysis 19
3.8Correlation Analysis 19
3.9Multicollinearity Test 20
3.10Regression Analysis 20
3.11Coefficient of Determination (R^2) 21
CHAPTER FOUR: RESULT AND DISCUSSION 22
4.1 Introduction 22
4.2 Descriptive Analysis 22
4.3 Correlation Analysis 24
4.4 Regression Analysis 26
4.4.1 F-test 27
4.4.2 T-test 27

1.1 Introduction

Gold prices have been under pressure as the Fed's (monetary policy) support is expected to be reduced, increasing the risk of rising bond rates. Inflation usually enhances the price of gold since gold has a reputation for holding its worth in the face of economic uncertainty. Investors are becoming more interested in shares, government bonds, and other assets as interest rates rise. Lower interest rates attract investors to gold, increasing demand and price proportionally.

Since the dawn of time, gold has served as a money and a store of value. A fixed quantity of gold was employed as the basic economic unit of money as part of the gold standard. A gold standard, according to international trade and finance expert Arthur Bloomfield, is "the national monetary unit specified in terms of a set amount of gold, and which could be freely exported and imported, representing a large portion of the world's circulating medium" (Cooper, Dornbusch & Hall, 1982). Gold was used as a money in Egypt and Nubia, a province of Sudan, as early as 5000 years ago. Gold was largely used as a means of exchange by merchants in the Middle East about 1500BC. China began using gold leaflets as a kind of payment around 1091 BC. The Romans, on the other hand, traded using gold coins known as Aereus in the first century BC.

In 1377 AD, the United Kingdom created a new monetary system based on both gold and silver. In other words, the gold reserves of the central bank are utilized to decide how much paper money is issued. Central banks will vary their interest rates in order to maintain the fixed exchange rate. The global gold standard became a matter of debate in the 1800s. While the United Kingdom has used the gold standard since at least 1816 (Gold Standard, 2003), the United States first started utilizing it in the 1870s. The United Kingdom popularized the gold standard. Following the Napoleonic Wars, Britain's military and economic superiority compelled countries such as Germany and Japan to adopt the gold standard (Cooper, Dornbusch & Hall, 1982). Britain rose to prominence as a military and economic superpower.

The gold standard started to lose its worldwide power in the twentieth century. During the outbreak of World War I, the United Kingdom elected to abandon the gold standard in order to finance the war by printing additional paper money. Following the war, they attempted unsuccessfully to reinstate the gold standard. While the gold standard was deteriorating, the Bretton Woods System was developed, in which currencies were tied to the dollar, and the dollar was fixed to gold after the end of WWII. However, this strategy was abandoned, and the United States continued to generate money at an alarming pace in order to fund its war in Vietnam.