

THE DETERMINANTS OF THE OIL PRICE IN MALAYSIA

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SUBMITTED IN PARTIAL FULFILLMENT

OF THE REQUIREMENT FOR

THE BACHELOR OF BUSINESS ADMINISTRATION WITH HONOURS

(FINANCE)

FACULTY OF BUSINESS AND MANAGEMENT

UNIVERSITI TEKNOLOGI MARA CAWANGAN TERENGGANU

JANUARY 2019

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ACKNOWLEDGEMENT

Undertaking a Bachelor program has been my long cherished dream and I am very thankful to the ALMIGHTY ALLAH for giving me the opportunity and strength to begin the program and help me to complete this Bachelor thesis.

At the outset, I would like to express my sincere appreciation to my supervisor Madam Fathiyah Binti Ismail for the creative ideas, valuable advice and suggestions in completing this thesis. This work would not have been accomplished without her extensive knowledge in the field of Finance and Management. She will always be remembered with respect as my "role-models" in my academic and non-academic life for their outstanding directions, motivations, encouragement, patience, help and affection.

I also extend my most sincere thanks to my respected second examiner Madam Nur Raihana Binti Mohd Sallem for their persistent support, kindness and dedication all along. She is not only very seasoned academic supervisor but also very good kind hearted person.

Lastly, I would also like to express my gratitude to my loving parents Mohd Sabri Bin Chik and Noor Hanan Bt Yaakub for their unconditional and endless love, care, understanding and encouragement all through my life. They provide all kind of financial support I need during my Bachelor period. Every success in my life has been achieved because of the love and blessings of my parents. Plus, I also would like to thank my friends, course mates, which always give me supports and helps.

ABSTRACT

The fluctuation of oil price in Malaysia has gained the interest to this research to find out the causes of unstable and also the decreasing trend of the yield. This paper is to investigate the relationship between inflation rate, exchange rate, gross domestic product and electricity production towards oil price in Malaysia as well as to determine the most significant factors that affect the oil price via time series technique. Secondary data was collected from World Bank Data, Fred Economies and Thomson Reuters Eikon from year 2010 to 2016 which contain monthly data started from January until June. The data was collected start on 2010 until 2016 because some of the variables only have sufficient data on that year. In order to make sure the data is consistent, the data started on the year of 2010 until 2016. Plus, Ordinary Least Square (OLS) method was employed to run the model and estimate the regression. Evidently, results reveal that there is statistically significant positive impact of the oil price towards inflation rate and exchange rate. Besides that, the results also reveal that there is insignificant negative impact of oil price towards gross domestic product and electricity production. These empirical results help investors to determine the factors that could affect the oil price and thus to help the investors to make the decision making wisely as can give benefit the country.

Keywords: Oil Price (OP), Inflation Rate (INF), Exchange Rate (ER), Gross Domestic product (GDP) and Electricity Production (EP).