

**THE EFFECT FROM THE INCREASING OF OIL
PRICE TOWARDS THE ECONOMY IN MALAYSIA**

NORLEEN ZULIATI BINTI BADRUL HISHAM

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**FACULTY OF BUSINESS MANAGEMENT
UiTM, MELAKA**

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ABSTRACT

When the government announces another hike in Malaysia's retail petrol and diesel prices on July 31, 2005, it brings major effects toward Malaysia economics. This was the second hike in retail petrol price and the third for diesel. In total, the government has raised prices of petrol by 20% and diesel by 68.6% since the first hike in May 2004. The increase in domestic fuel prices recently was inevitable given that oil prices in the international market had surpassed the US\$60 per barrel in June 2005, a level the authority has earlier hinted (in November 2004) will prompt it to revise the retail oil prices at the petrol pumps. The increasing of oil price giving the large impact to many industries such as automobile, transportation, and machinery in many factory industries. The clear view to us where all the industries are important to generate Malaysia's income. Due to that, in depth research need to be done in order to solve the effect from the increasing of oil price especially towards economics. Three main points that we can measure by looking at gross domestic product (GDP), inflation and government spending. Due to that, researcher wants to identify how the factors affect from the increasing of oil price towards the economy in Malaysia. Beside that, to suggest and make recommendation to solve all the problem mentioned.

Researcher has used secondary data or previous study for this research which include government publications of economic indicators, statistical and books and periodicals. All secondary data are processed and analyzed using Statistical Package for Social Science (SPSS Version 11.0). In conclusion, to study the effect from the increasing of oil price towards the economy in Malaysia, researcher has analyze from the previous study and found that the 3 factors that have been discussed are relevant and from the interpretation of data, the entire research objective successfully achieved.

CHAPTER 1: INTRODUCTION

1.1 Background of Study

Recently issue regarding increasing of oil being very popular to be discussed among people whether in public or parliament. Petrol and diesel are the two product which always experiencing the increasing in price gradually.

Petroleum is used mostly, by volume, for producing fuel oil and petrol (gasoline), both important "primary energy" sources. 84% (37 of 42 gallons in a typical barrel) of the hydrocarbons present in petroleum is converted into energy-rich fuels, including gasoline, diesel, jet, heating, and other fuel oils, and liquefied petroleum gas. Due to its incredible energy density and relative abundance, it has become the world's most important source of energy since the mid-1950s. Petroleum is also the raw material for many chemical products, including solvents, fertilizers, pesticides, and plastics; the 16% not used for energy production is converted into these other materials. ***(Wikipedia, the free encyclopedia)***

As we know, most of Malaysian owned transport. Transportation is very important to human as a need to move from one destination to another. Oil and transportation are complementary. Without petrol or diesel, transport cannot perform its function and vice versa. According to analyst **George Magnus**, high prices might be an early indication of a supply-demand imbalance that can only be reconciled by still higher prices (recession or global slowdown notwithstanding).