

**A STUDY ON THE AFFECTS OF FOREIGN DIRECT
INVESTMENT (FDI), INFLATION, UNEMPLOYMENT AND
GOVERNMENT EXPENDITURE ON THE ECONOMIC GROWTH
IN MALAYSIA**

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LETTER OF TRANSMITTAL

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Dear Sir,

SUBMISSION OF PROJECT PAPER (FIN 660)

Attached is the project paper titled “**A Study on the Affects of Foreign Direct Investment (FDI), Inflation, Unemployment and Government Expenditure on the Economic Growth in Malaysia**” to fulfill the requirement needed by the faculty of Business Management, Universiti Teknologi MARA.

Thank You.

Yours sincerely,

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ABSTRACT

This study is undertaken to examine the affects of foreign direct investment (FDI), inflation, unemployment and government expenditure on the economic growth using time series data on Malaysia (for 31 years). The objective of this study is to identify whether those factors affectionate economic growth in Malaysia. All the data used are in annual basis range from the year 1975 until year 2005. The method used is Multiple Linear Regression Analysis in order to determine the relationship between the four variables. Thus, the major findings of this study indicate that foreign direct investment and government expenditure are two important variables associated with the economic growth in Malaysia. Meanwhile, inflation and unemployment had shown insignificant relationship with the economic growth. These findings suggest that government should take into account that those factors had given big impact in determining the economic growth in Malaysia and do take corrective actions towards achieving vision 2020.

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1.0 CHAPTER DESCRIPTION

In this chapter, it explains introduces the definition background, problem statement, objectives, scope of study, hypotheses, significance of study as well as the limitation during the process in completing this project paper.

1.1 BACKGROUND TO THE STUDY

The Malaysian economy had recovered from the 1997 Asian financial crisis and was on the path of stronger growth. Real Gross Domestic Product (GDP) growth, which turned positive since the second quarter of 1999, had continued to grow strongly for seven consecutive quarters. Against this background and premised on the assumption of an early global economic recovery, the main strategic thrusts of Budget 2001 were focussed on stimulating domestic growth and enhancing competitiveness as well as improving the quality of life of Malaysians in line with the nation's agenda of a caring society.

Generally, economic growth is the increase in value of the goods and services produced by an economy. It is conventionally measured as the percent rate of increase in real gross domestic product, or GDP. The real GDP per capita of an economy is often used as an indicator of the average standard of living of individuals in that country, and economic growth is therefore often seen as indicating an increase in the average standard of living.

The Malaysian economy continued to remain on a steady growth path, with real gross domestic product expanding by 5.8% in the third