

UNIVERSITI TEKNOLOGI MARA

**MACROECONOMIC INDICATORS IN FOREIGN
EXCHANGE RATE VOLATILITY: A CASE IN
CHINA**

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Final Year Project Paper submitted in fulfillment
of the requirements for the degree of
**Bachelor of Business Administration
(Finance)**

Faculty of Business and Management

December 2018

AUTHOR'S DECLARATION

I declare that the work in this final year project paper was carried out in accordance with the regulations of Universiti Teknologi MARA. It is original and is the results of my own work, unless otherwise indicated or acknowledged as referenced work. This thesis has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

I, hereby, acknowledge that I have been supplied with the Academic Rules and Regulations for Undergraduate, Universiti Teknologi MARA, regulating the conduct of my study and research.

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ABSTRACT

The volatility of the exchange is outlined because the risk associated with sudden movements in exchange rates. High volatility means that the price of the currency can change drastically in a short period of time in both directions. On the other hand, lower volatility would mean that an exchange rate does not fluctuate dramatically, but changes its value at a constant rate over a period of time. China is the one of the largest trade centre in the world after the United States. But prices fluctuate more than 10 percent in one day. This makes it one of the most volatile in the world. It is so volatile because individual investors who are new on the market account for over 80% of transactions. China directly influences the US dollar by linking the value of its currency, the yuan, to the dollar. The Chinese monetary power derives from its numerous exports to the United States. The main categories are consumer electronics, clothing and machinery. In addition, many US companies send raw materials to Chinese factories to make low-cost assemblies. The finished products are considered as imports when the factories send them to the United States. This is how the US trade deficit with China is profitable for US companies. The focus of this study is on the macroeconomic indicators that give direct and indirect influence towards the exchange rate movements in China. Macroeconomic variables such as interest rates, inflation, exports, gross domestic product (GDP) and external debt are the random effect of exchange rates. This research study investigates the impact of exchange rate volatility in China based on annual data from 1987 to 2017, which was obtained from DataStream Thomson Reuters.

ACKNOWLEDGEMENT

In the name of Allah, the Most Gracious and the Most Merciful.

Alhamdulillah, thank you to Allah that had given me strength and patience to complete this research paper on time in order to accomplish the graduation requirement of Bachelor of Business Administration (Hons.) Finance. It would be impossible for me to spent time to complete this study without the grace and help of ALLAH s.w.t.

First and foremost, I want to expresses my biggest gratitude to my advisor, Miss Nurulashikin Binti Romli and also my supervisors Puan Nur Liyana Binti Mohamed Yousop and Puan Nur'asyiqin Binti Ramdhan. They inspired me a lot to work on this project. Their willingness to motivate me greatly contributed to my project. Without their encouragement, suggestions, ideas and comments throughout this study, this research could be completed.

I also would like to express my gratitude to the faculty of Business and Management department for their dedication and work they do preparing students for successful careers and giving me the privilege to do complete my Degree with a wonderful experience. To be honest this project paper had taught so many things which I should be grateful and it gives me a lot of knowledge especially when I explore more journals by other researchers.

I dedicate this research to my dear parents so that they understand and support me in completing this project and also for the rest of my families. I want you to know that I really appreciate what they had done to me.

Last but not least, I would like to thank everyone who have supported, helped and worked together directly or indirectly in assisting me realizing this research on time, the cooperation given is well appreciated and will always be remembered. Without helps of the particular mention above, I would face many difficulties while doing this. Thank you.

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