

Universiti Teknologi MARA
Cawangan Johor
Fakulti Perniagaan dan
Pengurusan

The Study of Money Demand and Inflation in Malaysia.

Prepared by :
SHARULNIZAM BIN
KAMALZAMAN
98161780

Prepared for: Encik Kamal
Bahrin b. Shamsuddin.
Course tutor
Diploma in Banking
UiTM Johor

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LETTER OF TRANSMITTAL

School of Business and Management,
University of Technology MARA,
Johore Branch,
85009 Segamat

En.Kamal Bahrin b. Shamsuddin.,
Lecturer of Universiti Teknologi MARA,
Johore Branch,
85009 ,Segamat,

Johor.

Dear Sir:

THE STUDY OF MONEY DEMAND AND INFLATION IN MALAYSIA.

On January 10, 2000, I was required to make a project paper on the study of money demand and inflation in Malaysia.

I was informed to submit the report on April 10, 2000. I hereby submit this paper and hope that you find everything is satisfactory.

Yours truly,



SHARULNIZAM B. KAMALZAMAN

98161780

BBA (Hons.) (Finance)

SCHOOL OF BUSINESS AND MANAGEMENT, UiTM, Johor.

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Abstract

This study discussed the money demand in Malaysia and the inflation rate. This study aims to identify whether the interest rate affects the money demand of M1, M2, and M3. On the other hand, this study also tries to prove whether inflation affects the money demand of M1, M2, and M3.

CHAPTER ONE

1.1 INTRODUCTION

Money is a payment tool and store of value. People need money for three motives. The first motive is the transaction demand. People need money for transaction as income received is not always within the same consumption. So, people need to hold liquid money to fulfill their needs and wants at anytime. Businesses hold some liquid money to fulfill their daily operating expenditure.

The second motive is people hold money to face the unexpected outcome such as a sudden loss of a limb due to a road accident. People sacrifice the interest that they will get from their savings accounts to face uncertainty by holding an amount of cash and current account.

The third motive is speculative. People hold money when interest rate is low and people will save their money in banks if the interest rate is high.¹

There are 3 types of money in Malaysia. The first type is M1, which is notes and coins in circulation and private sector current deposit. The second type is M2, which is M1 plus fixed deposit, private sector savings with Bank Negara Malaysia and the commercial banks, negotiable certificate of deposit and Bank Negara Malaysia certificates of deposit. The third type is M3. The M3 is defined as M2 plus private sector deposit with finance company, merchant bank, discount house and Bank Islam.²

¹ Bank Negara Malaysia 'Wang dan Urusan Bank di Malaysia, Edisi Ulangtahun 1959-1989' Page 433

² Ibid , page 431