



**CAUSAL RELATIONSHIP BETWEEN ISLAMIC
AND CONVENTIONAL BANKING INSTRUMENTS
IN MALAYSIA**

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**BACHELOR OF BUSINESS ADMINISTRATION
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UNIVERSITI TEKNOLOGI MARA
JOHOR**

MAY 2007

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**Submitted in Partial Fulfillment
of the Requirement for the
Bachelor of Business Administration
(Hons) Finance**

**FACULTY OF BUSINESS MANAGEMENT
UITM, JOHOR**

MAY 2007



**BACHELOR OF BUSINESS ADMINISTRATION
(HONS) FINANCE
FACULTY OF BUSINESS MANAGEMENT
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SEGAMAT**

"DECLARATION OF ORIGINAL WORK"

I, SARIZA BINTI SALLEH, (I/C NUMBER: 840821-01-6512), Matrix No. 2005655848
hereby declares that;

Hereby, declare that:

- This work has not previously been accepted in substance for any degree, locally or overseas and is not being concurrently submitted for this degree or any other degrees.
- This report is the result of my own work and research independently, except where otherwise stated.
- All verbatim extracts have been distinguished by quotation marks and sources of my information have been specifically acknowledged.

Signature: _____

Date: _____

4 MAY 2007

LETTER OF SUBMISSION

4th May 2007

En. Muhammad Sukor Bin Jaafar
FIN660 Course Tutor
Finance Department
Faculty of Business Management
Universiti Teknologi Mara
85009 Segamat
JOHOR DARUL TAKZIM

Dear Sir,

SUBMISSION OF PROJECT PAPER

Attached is the project paper titled “**CAUSAL RELATIONSHIP BETWEEN ISLAMIC AND CONVENTIONAL BANKING INSTRUMENTS IN MALAYSIA**” to fulfill the requirement as needed by the Faculty of Business Management, University Technology MARA.

Thank you.

Yours sincerely,



SARIZA BINTI SALLEH

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Bachelor of Business Administration (Hons) Finance

ABSTRACT

This study aims to examine whether Islamic banking is really different from conventional banking. The idea is to determine whether the Islamic investment rates are related to conventional deposit rates in six maturity-matched basis. The dependent variables are Islamic banks' and finance companies' investment rates on 1, 3, 6, 9 and 12 month *Mudharabah* deposits and Islamic banks' and finance companies' investment rate on *al-wadiah* savings deposits. On top of that, the independent variables are commercial banks' and finance companies' investment rate on 1, 3, 6, 9 and 12 month fixed deposits and commercial banks' and finance companies' investment rate on savings deposits. This study involves the Granger causality test on monthly series of Islamic investment rates and conventional deposit rates collected from the Monthly Statistical Bulletin published by Bank Negara Malaysia. The sampling period is from January 1997 to December 2006. The result shows that the changes in conventional deposit rates causes Islamic investment rates to change, but not vice versa. Means, the Islamic banking considers interest rates before adjusting its deposits returns.