



**THE IMPACT OF KOREA'S EXCHANGE RATE VOLATILITY ON MALAYSIA'S
TRADE AND FOREIGN DIRECT INVESTMENT**

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MAY 2008

DECLARATION OF ORIGINAL WORK



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"DECLARATION OF ORIGINAL WORK"

I, MOHD ASRI BIN SYAHROL, I/C Number: 851205-06-5621

Hereby, declare that,

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

Signature:

A handwritten signature in black ink, appearing to read 'eme' followed by a stylized flourish.

Date: May 2008

LETTER OF TRANSMITTAL

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1st May 2008

Rabiatul Alawiyah Bt. Zainal Abidin
The Head of Program
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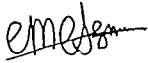
Dear Madam,

THE IMPACT OF KOREA'S EXCHANGE RATE VOLATILITY ON MALAYSIA'S TRADE AND FOREIGN DIRECT INVESTMENT

I'm required to do a project paper on the above topic. I hereby submitted this report and I really hope that this work will fulfill the requirement for the Bachelor of Business Administration (Hons) Finance.

Thank you.

Yours sincerely,



MOHD ASRI BIN SYAHROL
2006849465
Bachelor of Business Administration (Hons) Finance

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ABSTRACT

This paper empirically describes Korea's exchange rate volatility and its impact on Malaysia's trade and foreign direct investment. The paper will concentrate on the trade and investment of Malaysia in relation with Korea's exchange rate for the period of 11 years from the year 1997 to 2007. In the study, Granger Causality model are used to explain the relationship and the impact between independent and dependent variables. Granger causality is a technique for determining whether one time series is useful in forecasting another.

The paper show that only certain period that volatility in Korean exchange rate Granger-cause the dependent variable of trade and also the foreign direct investment exchanges between the two countries. In addition, the paper provides evidence that exchange rate volatility does not have robust and significant impact to trade and foreign direct investment inflows. It will show that greater volatility of exchange rate does not lead to a decreased trade and foreign direct investment. Exchange rate of Korea is used as the independent variable while Malaysia's trade and foreign direct investment acts as the dependent variable.