



**THE EFFECT OF PETROL SUBSIDY REMOVAL ON
PRICE OF SELECTED FOOD ITEMS**

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JUNE 2016

LETTER OF TRANSMITTAL

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Dear Sir,

SUBMISSION OF ECONOMIC PROJECT PAPER (ECO672)

Attached is the copy of Business Economics Project Paper (ECO 672) entitled “ The Effect of Petrol Subsidy Removal on Price of Selected Food Items” to fulfill the requirement as needed by the Faculty of Business Management, Universiti Teknologi MARA.

Thank You.

Yours sincerely,

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ACKNOWLEDGEMENT

In the name of Allah S.W.T the Most Gracious and Most Merciful and praises due upon His Prophet Muhammad S.A.W. Alhamdulillah, with the strength and will that He had given, I had finally manage to complete my project paper.

Secondly, I would like to express how thankful i am towards all the support shown by my family especially my mother. She had always been there through all the ups and downs I had been through. Thank you Umi for everything.

Further on, I would like to express my highest gratitude towards my advisor Madam Wan Hasni Binti Wan Hasan for her help, support and commitment, guiding me along the way. Also to my second advisor Madam Nor Zuriati Amani Binti Ab Rani for her kindness and supervision.

Last and not least, to all of those who had been involved directly and indirectly especially all my lecturers who had been teaching me right from my very first step in UiTM until now, I must admit that I could not ever repay all the knowledge and lessons you had taught me, your efforts and sacrifices, may Allah S.W.T bless you and all your families. Amin Ya Rabbal Aalamin.

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ABSTRACT

The government had gradually reduced aiding subsidy on fuel since July 2010 until December 2014 as part of the 10th Malaysian Plan (2010-2015) with the purpose to lower its budget and improve efficiency of the society's welfare. The removals of subsidy on petrol indicate the price of petrol itself to increase in which it may lead to an increase in the costs of other goods and services based on the cost-push inflation theory. The main focused of this study was to discover the effects on the price of selected food items such as beef, chicken, rice and flour due to the increase in price of RON 95 petrol. There are four simple regressions for each of the items namely average monthly price of beef, chicken, rice and flour as dependent variables and price of RON 95 petrol as the proxy for subsidy removal. The data obtained from all the variables are of monthly data starting from June 2010 until December 2014 and were analyzed using SPSS software. The results show there are significant relationships between the price of RON 95 petrol and the prices of beef, chicken, rice and flour which proved that the removals of subsidy on petrol had effected the rise in the cost of the selected food items. However, there are sign of coefficients which are not consistent with economic theory regarding the price of rice and flour after all this can be explained by the fact that these two items are under the pricing control mechanism of the government. Overall, the study suggests the models are reliable for further studies in the future.