



INSTITUT TEKNOLOGI MARA

**A paper submitted to MARA Institute of Technology in partial  
fulfilment of the requirement for the  
Bachelor of Business Administration (Hons) Finance**

A STUDY ON MALAYSIAN MONEY MARKET INTEREST RATES  
(WITH REFERENCES OF BANKERS ACCEPTANCES AND  
NEGOTIABLE INSTRUMENTS OF DEPOSITS)

ADVISOR :

PUAN FADZILAH AZAM AHMAD

BY :

AISAH BTE MAT TAN

95794007

SEPTEMBER 1997

## ∞ **ABSTRACT** ∞

---

Money market is a significant part of a nation's financial system in which banks and other participants trade hundreds of million of dollars. It also can be defined as a wholesale market for low risk and highly liquid short term loans.

This study was conducted to examine the relationship between money market interest rates (90 days of BA rate and 3 month NID rate) with other related factor ( 3 month interbank rate, inflation rate and exchange rate), as many investors feel that money market instruments as close substitutes changes in the money market interest rates are highly correlated .

The investigation began with a review of the related empirical studies. This was followed by an overview of BAs and NIDs, in order to provide some knowledge and better understanding under this study.

The empirical portion of this study employed a simple linear regression , multiple regression and trend analysis to examine the relationship between dependent variable (BA rate and NID rate) and independent variables (interbank rate, inflation rate and exchange rate ). The result of this study shows that both of the instruments rates have strong relationship with 3-month interbank rate and inflation rate but only a small portion of exchange rate that effect the 90 days of BA rate and 3 month of NID rate.

## ∞ ACKNOWLEDGEMENT ∞

---

Bismillahirrahmanirahim.....

Alhamdulillah, with the grace of ALLAH s.w.t , I would like to take this great opportunities to express my sincere acknowledgement and appreciation to those concern in the making of this studies.

Firstly to my respectable advisor, Puan Fadzilah Azam Ahmad for her guidance, useful suggestions and criticism to make this paper possible. I also like to thank the staff of BBMB, especially En. Shamsul Anwar Musa for his material and reference support. To all librarians at Bank Negara Malaysia, Securities Commission (SC), Institut Bank -Bank Malaysia (IBBM) and PTAR II (ITM), I extend my heartfelt gratitude for their helps in getting the materials needed.

Special appreciation for my beloved parents Puan Hajjah Latipah and Haji Mat Tan who shinning their love into my life , my eyes when I couldn't see and for all the wrong that they made me right and for members of the family especially my sister Harlina Mat Tan for all the scarifies and continued encouragement. I also wish to express my sincere appreciation to Dr. Rosalan Ali, Course Tutor of BBA (Finance) of his motivation and moral support. Not forgetting to my friends thank for all the helps and guidance.

Last but not least, I would like to extend my deepest gratitude to someone who gave me strength when I was weak, faith and support throughout the making of this paper, thanks and I appreciate it.

*-Aishah Mat Tan-*

## **∞ TABLE OF CONTENTS ∞**

---

|   | PAGE |
|---|------|
| ACKNOWLEDGEMENT   | i    |
| ABSTRACT  | ii   |
| TABLE OF CONTENTS   | iii  |
| LIST OF ABBREVIATIONS   | v    |
| LIST OF FIGURES   | vi   |
| <br>  |      |
| CHAPTER 1 INTRODUCTION  |      |
| 1.1 Overview of Money Market  | 1    |
| 1.1.1 Characteristics of Money Market                                   | 3    |
| 1.1.2 The Function of Money Market                                      | 5    |
| 1.2 Objective of the Study  | 8    |
| 1.3 Scope and Limitation  | 9    |
| CHAPTER 2 LITERATURE REVIEW   | 11   |
| CHAPTER 3 BANKERS ACCEPTANCES AND NEGOTIABLE<br>INSTRUMENTS OF DEPOSITS |      |
| 3.1 Bankers Acceptances   | 28   |
| 3.1.1 Main Participants   | 31   |
| 3.1.2 Term and Size   | 32   |

|   | PAGE |
|---|------|
| 3.1.3 Mathematical Calculation in BA Market                                   | 33   |
| 3.2 Negotiable Instruments of Deposits  | 35   |
| 3.2.1 Main Participants   | 37   |
| 3.2.2 Term and Size   | 39   |
| 3.2.3 Mathematical Calculation in NID Market                                  | 39   |
| 3.3 Growth Rate   | 42   |
| 3.4 Markets for Bankers Acceptances and<br>Negotiable Instruments of Deposits | 44   |
| <br>CHAPTER 4 DATA AND METHODOLOGY  |      |
| 4.1 Data  | 49   |
| 4.2 Methodology   | 51   |
| <br>CHAPTER 5 FINDINGS  |      |
| 5.1 90 Days BA Rate   | 62   |
| 5.2 3-Month NID Rate  | 74   |
| 5.3 Trend Analysis  | 85   |
| <br>CHAPTER 6 CONCLUSION AND RECOMMENDATION                                   |      |
| 6.1 Conclusion  | 90   |
| 6.2 Recommendation  | 93   |
| <br>BIBLIOGRAPHY  |      |
| <br>APPENDICES  |      |