



اُونِيُوَرَسِيْتِي تِيكْنُوْلُوْجِي مَارَا
UNIVERSITI
TEKNOLOGI
MARA

**A STUDY OF INTERNATIONAL FISHER EFFECT THEORY AND SELECTED
FOREIGN CURRENCIES**

**HANZALAH BIN HASSAN
(2011631844)**

BM222

**ADVISOR:
PROF MADYA DR NIK MUHAMMAD NAZIMAN BIN ABD RAHMAN**

**SECOND EXAMINER:
SITI NORBAYA BINTI MOHD RASHID**



**BACHELOR OF BUSINESS ADMINISTRATION (HONS) FINANCE
FACULTY OF BUSINESS MANAGEMENT
UNIVERSITI TEKNOLOGI MARA
KOTA BHARU, KELANTAN**

“DECLARATION OF ORIGINAL WORK”

1. Hanzalah Bin Hassan (I/C Number)

Here by, 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 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 our information have been specifically acknowledgement.

Signature: _____

Date: _____

ACKNOWLEDGEMENT

First and foremost, I am thankful to Allah for answering my prayers for giving me strength to complete this study. I would like to express a sincere gratitude to my advisor Prof Madya Dr Nik Muhammad Naziman for helping me a lot in the making of this study. For me, his patience, motivation, enthusiasm, and immense knowledge have given me a lot of helpful to finish this study. His guidance helped me in all the times of study and writing of this thesis. A lot of thanks also to my second examiner Miss Siti Nurbaya because she always give a lot of support during this study. I could not have imagined having a better advisor and lecturer for my study.

Besides my advisor, I would like to thanks to MY fellow classmates, BM222 5D for helping and guiding me to complete the research when we faced a difficulty. Without their help I am unable to have this kind of outcome.

Last but not least, sincere thanks also goes to my family and parents for giving birth to me at the first place and keep supporting spiritually throughout my life. Without them, I will not have anything in this world.

ABSTRACT

The study on the changes in exchange rates in Malaysia were determined by interest rate differential and inflation rate differential of foreign countries based on their level of economic development. International Fisher Effect (IFE) theory is indicator that used to analyse in term of economic term the relationship between interest rate and inflation rate differential into changes in exchange rates. This study to identify the significant of interest rate into the change in exchange rate based on International Fisher Effect theory and to analyse the inflation rate influences on exchange rate based on the International Fisher Effect theory. The period of time of this study is between, 1999:Q1 to 2011:Q4. In order to analyse data, this study use regression technique to show positive significant of interest rate differential and inflation rate differential to influence on changes in exchange rate. The finding show that for Malaysia – United States and Malaysia – United Kingdom pairs the inflation rate and interest rate not move together to influences the changes of exchanges rate. The finding also shows international fisher effects theory valid only on Malaysia – Japan and Malaysia – Singapore.

Table of Contents

“DECLARATION OF ORIGINAL WORK”	i
LETTER OF SUBMISSION	ii
ACKNOWLEDGEMENT	iii
ABSTRACT.....	iv
CHAPTER ONE : INTRODUCTION	
1.0. INTRODUCTION	1
1.1. BACKGROUND OF RESEARCH	2
1.2. PROBLEM STATEMENT	3
1.3. RESEARCH OBJECTIVES	4
1.4. SIGNIFICANT OF STUDY	5
1.5 FUTURE RESEARCH.....	6
CHAPTER TWO : LITERATURE REVIEW	
2.1 THE INTERNATIONAL FISHER EFFECT (IFE) theory.....	7
2.2 EFFECT OF IFE IN DEVELOPING ECONOMIES	8
2.3 EXCHANGE RATES	9
2.4 INTEREST RATES	11
2.5 INFLATION RATE.....	14
2.6 RELATIONSHIP OF EXCHANGE RATES, INTEREST RATES AND INFLATION RATES WITH IFE.	16
CHAPTER THREE : RESEARCH METHODOLOGY	
3.1 DATA COLLECTION	19
3.2 DATA SOURCES	20
3.2.1 Journals and Articles.....	20
3.2.2 Data Stream.....	20
3.2.3 Report from Central Bank.....	20
3.2.4 Economic books and Internet.....	21
3.3 VARIABLES	
3.3.1 Independent Variables.....	22
3.3.2 Dependent Variables	22
3.4 RESEARCH DESIGN	
3.4.1 Purpose of the Research.....	23
3.4.2 Types of Investigation.....	23
3.4.3 Extend of Researcher Interference	23