

**THE COINTEGRATION BETWEEN ECONOMIC SECTORS
AND OIL PRICE IN MALAYSIA**

ZALINA ANAK AYUM

2014139417

**Submitted in Partial Fulfilment of the
Requirement for the
Bachelor of Business Administration with Honours (Business Economics)**

**FACULTY OF BUSINESS MANAGEMENT
UNIVERSITI TEKNOLOGI MARA
KOTA KINABALU**

July 2017

DECLARATION OF ORIGINAL WORK



**BACHELOR OF BUSINESS ADMINISTRATION
WITH HONOURS (BUSINESS ECONOMICS)
FACULTY OF BUSINESS MANAGEMENT
UNIVERSITI TEKNOLOGI MARA
“DECLARATION OF ORIGINAL WORK”**

I, **ZALINA ANAK AYUM**, (I/C Number: **940519-13-5674**)

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 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: _____

Date: _____

TABLE OF CONTENTS

TITLE PAGE	i
DECLARATION OF ORIGINAL WORK	ii
LETTER OF TRANSMITTAL	iii
ACKNOWLEDGEMENT	iv
TABLE OF CONTENTS	v-vii
ABSTRACT	viii
CHAPTER 1: INTRODUCTION	
1.1 Background of Study	1-2
1.2 Problem Statement	3
1.3 Research Objectives	3
1.4 Significance of Research	
1.4.1 Body of Knowledge	4
1.4.2 Policy Makers	4
1.5 Scope and Limitation	4
1.6 Conclusion	5
CHAPTER 2: LITERATURE REVIEW	
2.1 Introduction	6
2.2 Literature Review	6-9
2.3 Conceptual Framework	10
2.4 Research Hypotheses	11-12
2.5 Research Questions	13
2.6 Conclusion	13
2.7 The Summary of Literature Review	14-19

5.1 Introduction	37
5.2 Summary of Results	37-38
5.3 Recommendation	38
REFERENCES	39-40
APPENDICES	41-66
LIST OF FIGURES	
Figure 1: Conceptual Framework	10
Figure 2: Research Flow	26
Figure 3: Granger causality result	35
LIST OF TABLES	
Table 1: ADF and PP results	27
Table 2: Johansen Cointegration results	28
Table 3: Regression results	29
Table 4: Breusch-Godfrey Serial Correlation LM results	31
Table 5: Breusch-Pagan-Godfrey results	32
Table 6: Variance Inflation Factors results	33
Table 7: Pairwise Granger Causality results	34

ABSTRACT

The main objective of this study is to examine the long run equilibrium between economic sectors and oil price in Malaysia. The variables that are included in this study are agriculture sector, industry sector, manufacturing sector, services sector and the oil price. This research study covers annual data for the time period from 1985 to 2016. Econometrics methods like unit root, cointegration and causality test were tested to identify a long run relationship and causality from energy prices to economic sector. Data for economic sector and energy prices were extracted from World Bank and Energy Information Administration (EIA). By using Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) unit root test, the time series data for all dependent and independent variables are found to be non-stationary at level but stationary at first difference. The results from Johansen cointegration test show that there is long run relationship between the variables. Pairwise Granger causality test suggested that oil price affect the industrial, manufacturing and services sectors in Malaysia.