



**KEY FACTORS OF MALAYSIAN RINGGIT VOLATILITY**

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## ABSTRACT

Following a sharp depreciation of Malaysian Ringgit in 2015, this study was conducted to investigate the relationship between lending rate, terms of trade, stock market index, and international reserves with the exchange rate of Malaysian Ringgit against US Dollar. The study also is enthusiastic about revealing the most influential factor that affects the exchange rate of Malaysian Ringgit against US Dollar. To realize the official objectives, the monthly data of the related variables from January 2013 to July 2015 were analyzed using the regression analysis. The findings show that all input variables have negative relationships with the exchange rate of Malaysian Ringgit against US Dollar except the terms of trade, which shows a positive relationship. However, the lending rate was revealed to be insignificant in influencing the exchange rate of Malaysian Ringgit against US Dollar. Among the three remaining significant regressors, the terms of trade were found to be the most influential factor in determining the exchange rate Malaysian Ringgit against the US Dollar. Generally, the overall regression model is valid and can be employed for estimation purposes. Equally important, the generated regression model is guaranteed to be free of multicollinearity and autocorrelation problems. The researcher also suggested the future researchers to add more significant variables, increase the sample size of data, and detect the heteroscedasticity problem in the regression model.

Keywords: Exchange Rate, Malaysian Ringgit, Lending Rate, Terms of Trade, Stock Market Index, International Reserves

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