

UNIVERSITI TEKNOLOGI MARA

**DETERMINATIONS OF FINANCIAL
DEVELOPMENT AND INCOME
INEQUALITY IN MALAYSIA**

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of the requirements of the degree of
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AUTHOR'S DECLARATION

I declare that the work in this project paper was carried out in accordance with the regulations of Universiti Teknologi MARA, Johor Branch, Segamat Campus. It is original and all the results is my own work, unless otherwise indicated or acknowledged as referenced work. This thesis has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

I, hereby, acknowledge that I have been supplied with the Academic Rules and Regulations for Universiti Teknologi MARA, Johor Branch, Segamat Campus regulating the conduct of my study and research.

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ABSTRACT

Malaysia can be classified as one of the country that have high level of economic growth rates in the developing countries. But as what we know, Malaysia income gap is still relatively high compared to other ASEAN countries eventhough Malaysia have smaller income gap. Based on that, development of financial system is needed to ensure that financial development can helps in reducing income inequality in Malaysia. The objective of this study is to determine the relationship of financial development that contribute in reducing income inequality by using annual data from 1984 until 2014. This study is focussed and limited to the data that measured financial development in Malaysia. According to Madhu Sehwat and A.K. Giri (2014), the effects of financial development towards inequality still unresolved. In this research, Gini index will be using as dependent variable to measure income inequality while independent variables is trade openness, consumer price index (CPI), private sector to GDP and broad money (M2). By using OLS method, it indicates that financial development is insignificant in reducing income inequality in Malaysia. In this study, the results is expected to be positive and significantly correlated between financial development and income inequality. Government's also need to improve institutional quality, economic development and reduce inflation in order to combat income inequality.

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