



**A STUDY IN DETERMINE THE ECONOMIC GROWTH IN MALAYSIA**

**MUHAMMAD NAZLI BIN ABU BAKAR**

**2008547827**

**BACHELOR OF BUSINESS ADMINISTRATION**

**(HONS) FINANCE**

**FACULTY OF BUSINESS MANAGEMENT**

**UNIVERSITI TEKNOLOGI MARA**

**DUNGUN, TERENGGANU**

**APRIL 2011**



## ABSTRACT

This paper examines the relationship between economic growth in Malaysia and its factors; Gross Domestic Product (GDP), Foreign Direct Investment (FDI) and Exports (EXP) using Johansen cointegration analysis based on Error Correction Model (ECM). The relationship among those variables is investigated using time series data from 1974 to 2009. The researcher focused on this topic because the researcher wants to know how economic growth in Malaysia having the fluctuation during those period, especially when in the crisis. After having completed the analysis by using Vector Error Correction Model (VECM), the findings shows that only EXP has positive relationship with the Economic growth while GDP and FDI have negative relationship in the long run. On the other hand, Granger causality resulted that there is non-directional from between all variables in the short run. It is because the economic growth has being influenced by other factors.

**Keywords:** Time series, GROWTH, EXP, VECM and Granger causality.

## TABLE OF CONTENT

	PAGE
<b>ACKNOWLEDGEMENT</b>	<b>iii</b>
<b>TABLE OF CONTENT</b>	<b>iv</b>
<b>LIST OF FIGURES</b>	<b>vii</b>
<b>LIST OF TABLES</b>	<b>viii</b>
<b>LIST OF ABBREVIATIONS</b>	<b>ix</b>
<b>ABSTRACT</b>	<b>x</b>
<b>CHAPTER ONE: INTRODUCTION</b>	
1.1 INTRODUCTION	01
1.2 BACKGROUND OF STUDY	01
1.3 PROBLEM STATEMENT	03
1.4 OBJECTIVE	04
1.5 SCOPE OF STUDY	04
1.6 THEORETICAL FRAMEWORK	05
1.7 HYPOTHESIS	05
1.8 LIMITATIONS OF THE STUDY	06
1.8.1 Time Constraint	06
1.8.2 Accuracy and Reliability of Data	07
1.8.3 Limited Resources and Information	07
1.8.4 Lack of Experience	08
<b>CHAPTER TWO: LITERATURE REVIEW</b>	

2.1	ECONOMIC GROWTH (GROWTH)	09
2.2	CURRENT GROSS DOMESTIC PRODUCT (GDP)	11
2.3	FOREIGN DOMESTIC INVESTMENT (FDI)	12
2.4	EXPORTS (EXP)	14

### **CHAPTER THREE: RESEARCH METHODOLOGY**

3.1	DATA COLLECTION METHOD	16
3.1.1	Internet	16
3.1.2	Journals and Articles	16
3.1.3	Statistical Report	17
3.1.4	Books	17
3.2	MODEL SPECIFICATION	17
3.3	DATA ANALYSIS	18
3.3.1	Augmented Dickey-Fuller Test	19
3.3.2	Phillips-Perron Test	20
3.3.3	Determination of Lags	21
3.3.4	Co-integration Tests	21
3.3.5	Johansen and Juselius Test	22
3.3.6	Vector Error Correction Model (VECM)	23
3.3.7	Lagrange-Multiplier Test for Autocorrelation	25
3.3.8	Jarque-Berra Test for Normality	26
3.3.9	Granger Causality	28

### **CHAPTER FOUR: RESULT AND DISCUSSION**

4.1	DATA DESCRIPTION	30
-----	------------------	----