UNIVERSITI TEKNOLOGI MARA

# THE IMPACT OF OIL PRICES TOWARDS THE EXCHANGE RATE: AN EMPIRICAL EVIDENCE FROM THE SELECTED OIL IMPORTING AND OIL EXPORTING COUNTRIES

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MSc

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# AUTHOR'S DECLARATION

I declare that the work in this thesis was carried out in accordance with the regulations of Universiti Teknologi MARA. It is original and is the results of 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 Post Graduate, Universiti Teknologi MARA, regulating the conduct of my study and research.

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# ABSTRACT

Economist and financial analysts have argued that fluctuations in oil prices may have a crucial effect on the exchange rates, as the oil price is the major factor in any economic situation. Previous studies found an inconsistent impact of oil prices on the exchange rate pertaining to its relationship to the crude oil price for both oil-exporting and importing countries. Initially, an increase in oil price, oil-exporting countries will appreciate in contrast oil-importing countries' exchange rate will depreciate as mentioned by Golub (1983) and Krugman (1983) trough trade channel impact. However, there were studies that did not support the results mentioned. Hence, the study attempts to determine if there is a different impact of oil price towards exchange rate on selected countries for both oil-exporting and importing countries. Generally, the literature concentrated more on oil prices and exchange rates alone and less attention was focused on macroeconomic factors. In fact, other factors on domestic variables such as macroeconomic and financial indicators also influence the movement of the exchange rate. Therefore, this study incorporated both economic and financial variables with oil prices to address this gap. This study employed the Ordinary Least Square (OLS) and Autoregressive Distributed Lag (ARDL) approach to achieving the research objective using monthly data from August 2005 until December 2016. The findings suggest that an increase in oil prices for oil-exporting countries like Russia and Malaysia would be appreciated meanwhile for the oil-importing country like China it would experience appreciation in currency but in contrast, depreciated for Japan. The findings showed inconsistent results as stated by Krugman (1983) and Golub (1983). Therefore, extensive empirical findings were conducted to enable policymakers to estimate the impact of oil price fluctuation on the exchange rate vis-a-vis and other macroeconomic variables as well as the financial variables.

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