



اَوْنِيُوْرْسِيْتِي تِيْكْنُوْلُوْجِي مَارَا

**UNIVERSITI TEKNOLOGI MARA  
CAWANGAN KELANTAN**

**EXCHANGE RATE SENSITIVITY TOWARDS MONEY SUPPLY,  
GDP AND INTEREST RATE:  
A CASE STUDY ON MALAYSIAN RINGGIT  
AGAINST FEW OTHER CURRENCIES**

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**APRIL 2007**

## ACKNOWLEDGEMENT

### *Bismillahirrahmanirahim*

First and foremost, Alhamdulillah, at last this report finish on time. Whilst accepting full responsibility for the contents of this work, it would be churlish not to took acknowledgement the debt I owe to all those directly and indirectly contributed to this writing. It has a most fruitful experience to have been able to do this research.

Here, I would like to express my greatest sincere to my advisor, Prof. Madya Dr Nik Muhammad Naziman Ab Rahman for being patient, helping me to get some ideas regarding my topic and also his valuable advise, support and encouragement. May Allah S.W.T bless him and his family for all the kindness that he had poured on me.

I also would like to thank to my entire friends for their educative support in order to finish my project paper. I am greatly indebted to UiTM Kelantan lecturers and those who have been very helpful in helping me to complete this project paper by providing valuable information, which contribute considerably to this study. This acknowledgement also goes to my entire classmate who worked, studied, played and prayed together in the name of Allah S.W.T.

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## **ABSTRACT**

This study was conducted to find whether does exchange rate of Malaysian Ringgit against few other currencies sensitive towards money supply, GDP and interest rate. The exchange rates of Malaysian Ringgit against US Dollar, Singapore Dollar, Deutschmark and Japanese Yen have been chosen for this study. This study is emphasizes on the relationship between exchange rate of Malaysian Ringgit against few other currencies with money supply, GDP and interest rate. The objectives of this study are to know whether money supply, GDP and interest rate have influence on exchange rate of Malaysian Ringgit against few other currencies or not, and also to examine whether there are positive or negative relationship between exchange rate of Malaysian Ringgit against few other currencies with money supply, GDP and interest rate. The data were collected on monthly basis from Jan 1991 to Aug 1998 and from Jul 2005 to Sep 2006. Data were analyzed using SPSS program. From the findings, it can be concluded that money supply has an influence on exchange rate of Malaysian Ringgit against US Dollar. The findings also show that there is positive relationship between exchange rate of Malaysian Ringgit against US Dollar with money supply. For GDP and interest rate, there is no relationship with the exchange rate of Malaysian Ringgit against US Dollar. For Singapore Dollar, Deutschmark and Japanese Yen, there no significant at all with money supply, GDP and interest rate.

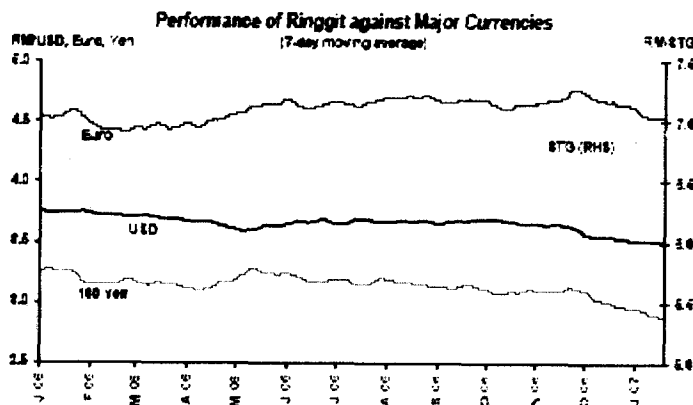
## 1.0 INTRODUCTION

The 1997 East Asian currency crisis made apparent how vulnerable currencies can be. The speculative attacks on the Ringgit almost devastated the economy if not for the quick and bold counter actions taken by the Malaysian government, particularly in checking the offshore Ringgit transactions. It also became apparent the need for firms to manage foreign exchange risk.

### **Ringgit appreciated against the major and regional currencies**

During the period 1 December 2006 – 26 January 2007, the ringgit appreciated against the major currencies in the range of 2.3% - 7.9% amidst net trade and investment inflows. The US dollar experienced some weakness earlier in the period amidst market expectations of a reduction in the policy rate on concerns of a slowing US economy. The Japanese yen also weakened as market expectations of an increase in the policy rate by the Bank of Japan receded. The ringgit appreciated against the regional currencies in the range of 2% - 4.4%. There was limited contagion impact on the ringgit arising from the regulatory measures imposed by the Bank of Thailand on 18 December 2006 to limit capital inflows.

**Figure 1.1 Ringgit appreciated against the major currencies.**



Sources: Bank Negara Malaysia (2007)