



**FACTORS AFFECTING EXCHANGE RATES MOVEMENT  
IN MALAYSIA**

**ILI NADHRAH AHMAD ZAHARI**

**2012557887**

**BACHELOR OF BUSINESS ADMINISTRATION  
WITH HONOURS (FINANCE)  
FACULTY OF BUSINESS MANAGEMENT  
UNIVERSITI TEKNOLOGI MARA  
JOHOR**

**JUNE 2015**

## **ACKNOWLEDGEMENT**

I am thankful to Allah for giving me strength throughout the course of Bachelor Degree in Finance programme to complete this Thesis.

I would like to express my highest appreciation and gratitude to my supervisor, Associate Professor Noor Izah Ismail and also Associate Professor Shukri Shamsuddin for their invaluable support, encouragement, supervision and useful suggestions which greatly assist me in the completion of this research work.

I am also thankful to Universiti Teknologi MARA (UiTM) for giving me the opportunity to pursue Bachelor Degree in Finance. In addition, my special appreciation goes to all my lecturers, whose dedication and encouragement have guided me to acquire the essential knowledge in this field.

Special thanks to my parents for their love and support throughout my life. I also wish to thank both my brother and sister for their support and understanding during my study.

Big thanks to all my coursemates, classmates, and my friends who assisted and encouraged me in completing my studies. I would like also to acknowledge the parties that help either directly or indirectly.

## ABSTRACT

Exchange rate has an important role in the country's level of trade; the country import and export are affected by the changes of exchange rate. An appreciation of home country currency will lead the price of export products to be more expensive, and import products to be cheaper. Meanwhile, a depreciation of home currency will lead the price of import products to be more expensive and export products to be cheaper. The main objective of this study is to investigate the national income, inflation rates, interest rates, money supply, and gold price impacts on exchange rate movements in Malaysia. The independent variable in this study is the national income, inflation rates, interest rates, money supply, and gold price while the dependent variable is the exchange rates movement in Malaysia. The secondary quantitative data (time series) monthly data are collected for periods of 8 years (2005-2013) as number of observations. This study used secondary time series data and single regression model represented by pooled ordinary least square method to examine the national income, inflation rates, interest rates, money supply, and gold price impacts on exchange rates movement in Malaysia.

## TABLE OF CONTENTS

TITLE PAGE.....	i
DECLARATION OF ORIGINAL WORK.....	ii
LETTER OF SUBMISSION.....	iii
ACKNOWLEDGEMENT.....	iv
ABSTRACT.....	v
CHAPTER 1: INTRODUCTION.....	1
1.1 INTRODUCTION.....	1
1.2 BACKGROUND OF STUDY.....	2
1.3 PROBLEM STATEMENTS.....	3
1.4 RESEARCH QUESTIONS.....	3
1.4.1 Main Research Question.....	3
1.4.2 Specific Research Questions.....	3
1.4.2.1 National Income.....	3
1.4.2.2 Inflation Rate.....	4
1.4.2.3 Interest Rate.....	4
1.4.2.4 Money Supply.....	4
1.4.2.5 Gold Price.....	4
1.5 RESEARCH OBJECTIVES.....	4
1.5.1 Main Research Objective.....	4
1.5.2 Specific Research Objectives.....	4
1.5.2.1 National Income.....	4
1.5.2.2 Inflation Rate.....	4
1.5.2.3 Interest Rate.....	4
1.5.2.4 Money Supply.....	4
1.5.2.5 Gold Price.....	4
1.6 SCOPE OF STUDY.....	5
1.7 SIGNIFICANCE OF STUDY.....	5
1.8 LIMITATIONS OF STUDY.....	5
1.8.1 Time Constraint.....	5
1.8.2 Data Constraint.....	5
1.9 DEFINITION OF TERM.....	6
1.9.1 Ringgit Malaysia.....	6
1.9.2 National Income / GDP.....	6

1.9.3 Inflation Rate.....	6
1.9.4 Interest Rate.....	7
1.9.5 Money Supply.....	7
1.9.6 Gold Price.....	7
1.10 SUMMARY.....	8
CHAPTER 2: LITERATURE REVIEW.....	9
2.1 INTRODUCTION.....	9
2.2 FACTORS AFFECTING EXCHANGE RATE MOVEMENTS.....	9
2.2.1 National Income / GDP.....	10
2.2.2 Inflation Rate.....	10
2.2.3 Interest Rate.....	11
2.2.4 Money Supply.....	11
2.2.5 Gold Price.....	12
2.3 SUMMARY.....	12
CHAPTER 3: RESEARCH METHODOLOGY.....	13
3.1 INTRODUCTION.....	13
3.2 DATA COLLECTION.....	13
3.2.1 Secondary Data.....	13
3.3 VARIABLES.....	14
3.3.1 Dependent Variable.....	14
3.3.2 Independent Variables.....	14
3.4 RESEARCH DESIGN.....	14
3.4.1 Purpose Of The Study.....	14
3.4.2 Types Of Investigation.....	15
3.4.3 Extent Of Researcher Interference.....	15
3.4.4 Study Setting.....	15
3.4.5 Unit Of Analysis.....	15
3.4.6 Time Horizon.....	15
3.5 THEORETHICAL FRAMEWORK.....	16
3.6 HYPOTHESIS STATEMENT.....	16
3.6.1 Main Hypothesis Statement.....	16
3.6.2 Specific Hypothesis Statement.....	16
3.6.2.1 National Income.....	16
3.6.2.2 Inflation Rate.....	17