A STUDY TO DETERMINE THE RELATIONSHIP BETWEEN INFLATION RATE, INTEREST RATE, IMPORT RATE AND EXPORT RATE TOWARD EXCHANGE RATE IN MALAYSIA

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ABSTRACT

MYR has showed different volatility degree in the past two decades in line with the economic circumstances which faced by country through the time. Currency is highly uncertain and unpredictable instrument. There are ample of factors affecting movement of currency. Briefly, by using MYR against USD, four independent variables such as inflation rate, interest rate, import rate and export rate have been chosen to investigate the significant relationship towards Malaysia exchange rate. In the meantime, the study would allow to see whether the four factors can affect the fluctuation of an exchange rate. For the empirical work, correlation analysis, multiple regression and recent econometric analysis were conducted to determine the relationships of the four factors chosen toward exchange rate. The data has been collected from 1884 until 2014 by using yearly time series data. Order of integration for all the variables was checked using Augmented Dickey-Fuller tests of unit root. The empirical evidence using the regression analysis shows Inflation rate and Interest rate are the only significant independent factors that affect an exchange rate. While other independent variable shows insignificant result. The result of the causality test indicates that there is a significant relationship between the inflation and interest rate towards exchange rate. This means that any information flow regarding the inflation and interest rate in Malaysian economy will affect the volatility of exchange rate.

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