



**EXCHANGE RATE AND ECONOMIC VARIABLES IN  
MALAYSIA: GRANGER CAUSE**

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

“IN THE NAME OF ALLAH, THE MOST GRACIOUS AND MERCIFUL”

*Alhamdulillah,*

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## **ABSTRACT**

This study was empirically to investigate the direction of causation Exchange rate selected macroeconomics variables in Malaysia use Granger Causality. Exchange rate is very important factor that affect the economic health and give a vital role in the country level of trade, which in turn the most important in a free market economy. This study was based on quarterly data basis which are gathered from EIU data country and Online Quandl by using sample size of 40 observations over the period between 2006 and 2015. The data is pull together in a time series data. The data taken for the research are from several authorized sources such as Online EIU Country data and Quandl. In order to achieve the objective, Granger causality Method will be applied on the research model to see the macroeconomics variables be impact towards exchange rate, which is it can be analyse and differentiate to see the movements of the variables itself. The main purpose of this study is to examine what are the reasons and evidence of exchange rate movements in Malaysia. The united stated is taken as a base country. This research is focusing to have a clear view on the relationship between the variables. Interest Rate (IR), Inflation (CPI), Money Supply (M2), Price of Crude Oil (OIL) and Export (X) are all the variable factors that used to identify their causality effect towards exchange rate in Malaysia. The research is very important, in order to determine the factor that play the vital role in the movements of Malaysia economics nowadays. The conclusions that can be drawn are exchange rate can predict the movements of exports but not vice versa. However, for interest rate and price of crude oil does not granger causality the exchange rate.

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<b>TABLE OF CONTENTS</b>	<b>P</b>
<b>DECLARATION OF ORIGINAL WORK</b>	
<b>LETTER OF SUBMISSION</b>	ii
<b>ACKNOWLEDGEMENT</b>	iii
<b>ABSTRACT</b>	iv
<b>TABLE OF CONTENTS</b>	
<b>CHAPTERS</b>	
<b>1. INTRODUCTION</b>	<b>1</b>
1.1 Background of Study	2-4
1.2 Problem Statement	4-6
1.3 Research Question	7
1.4 Research Objectives	7
1.5 Significant of Study	8
1.6 Limitation of Study	9
1.6.1 Availability of Data and Information	
1.6.2 Accuracy of Data and Information	
1.6.3 Time constraints	
1.7 Scope of Study	10
<b>2. LITERATURE REVIEW</b>	<b>11</b>
2.1 Introduction	11
2.2 Exchange Rate	12-14
2.3 Interest Rate	15
2.4 Inflation	16
2.5 Money Supply	17
2.6 Price of Crude Oil	18-19
2.7 Export	20-21
<b>3. RESEARCH METHODOLOGY</b>	<b>22</b>
3.0 Introduction	22
3.1 Sample and Data	23
3.1.1 Population and Sample	
3.1.2 Data Collection	
3.1.2.1 Secondary Data	
3.1.3 Variables	24-27
3.2 Theoretical Framework	28
3.3 Hypothesis Statement	29-30
3.4 Statistic / Econometric Method	31
3.4.1 Test for Stationary : Unit Root Test	31
3.4.2 The Granger Causality Test	32-33