THE RELATIONSHIP BETWEEN VIETNAM DONG (VND), INDONESIA RUPIAH (IDR) AND THAILAND BAHT (THB) CURRENCIES EXCHANGE RATES AND MALAYSIA CURRENCY EXCHANGE RATE

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JUNE 2016

ACKNOWLEDGEMENTS

In the name of Allah, the Most Compassionate, the Most Merciful

Praise be to Allah the Al-Mighty for giving me the strength and patience to complete this study within the period given.

I wish to express my sincere gratitude to my advisor, Sir Mohd Azim Bin Sardan, for his continuous encouragement, invaluable suggestions, patient guidance and supporting me with kindness, sympathy and academic enthusiasm. His forceful comments and meticulous directions were a constant source of inspiration to my research that immensely improved the quality of this project paper.

I also would like to take this opportunity to deliver my deepest indebtedness to my parents for their patience, support and guidance for this research.

Not forget, great appreciation go to the rest of my friends that help me from time to time during the research. The whole research really brought us together to appreciate the true value of friendship and respect of each other.

Great deals appreciated go to the contribution of my faculty -Faculty of Business Management (Finance). Apart from that, I hope that all the information and data that I have gathered here will increase the knowledge of anyone who will be accessing it regarding the study on the "A Study On The Relationship Between Southeast Asia Currencies Exchange Rates and Malaysia Currency Exchange Rate". It would be a great honour to us if it is used as a reference or for any other good cause.

Finally, I would like to extend this appreciation to all that have directly and indirectly contributed invaluable assistance, cooperation and support in the completion of this research.

ABSTRACT

This paper examines relationship between Southeast Asia currencies exchange rates and Malaysia Ringgit. For that purpose, the currencies exchange rate of Vietnam Dong, Indonesia Rupiah and Thailand Baht have been chosen to be analyzed against Malaysia Ringgit. Single Linear Regression and Multiple Linear Regression model is applied to ascertain the significance relationship between Malaysia currency exchange rate and the Southeast Asia currencies exchange rates. Between this two models, Multiple Linear Regression Model is the best fitted as model selection in this study. The result shows that there are positive relationships between Southeast Asia currencies exchange rates and Malaysia currency exchange rate.

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CHAPTER 1

INTRODUCTION

1.0 Background of Study

The development of Malaysia is always been spoken as a nation's economic achievement and goals. It's also known as a political platform and rallying point (Lee, 2013). Malaysia is in the stage of steady growth in economy by robust the domestic demand and improving the exports (Aziz, 2013).

Malaysia are actively involved in foreign investors from time to time to expand its economy growth. With the engagement with foreign sector from the time of its independence in 1957 left little choice regarding the type of exchange rate regime it would adopt. In developed country fixed exchange rate is important for one reason because exchange rate stability establishes confidence in the minds of domestic import/export business and foreign investors. This is because a fixed exchange rate is preferable in a country with an internationally oriented developing economy. The factor that make export-oriented development strategy is a predictable exchange rate.

During currency crisis in 1997-1998 in South East Asian forced many economies in the region to shift away from dollar-pegged regime to more flexible exchange rate regimes. The year 1997 was the ended of pegged exchange rate regimes in Asia. In Asia, Thailand has become the first country to break its official parity on July 2, 1997. A few days after Thailand, Malaysia country which represent by Bank Negara Malaysia has resigned intervening to smooth the fluctuation of Ringgit and float the Ringgit currency. During the crisis the value of these Asian currencies had become nearly halved because the foreign exchange market become so much volatile (Verschoor & Muller, 2007).

The first Asian country get impact from Asian crisis are Thailand in July 1997 and then spilled to the other ASEAN countries (Indonesia, Malaysia and Singapore) and later its spreads to Korea and even crossing the continent to Russia and Brazil. Malaysia take this