CURRENCY CRISIS IN MALAYSIA:

THE LEADING INDICATORS

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ABSTRACT

Currency exchanges are considered as one of the important issues and serious concern for this modern era globalization. A country must have a strong and stable currency in order to maintain the capital and finance. Recently, Malaysia get a lot of complain from the citizens who questioned the government in manage the economy that cause such as increase in inflation rate, high interest rates and high government rates and debt. Due to this problem, this research sought to shed lights on factors affecting the changes of currency in Malaysia compared to USD currency and to identify the main factor contribute to this problem.

This paper aims at finding out the impact of Macroeconomic Variables toward Malaysia Currency. The variables used in this study are Inflation Rate, Interest Rate, Government Debt and Term of Trade. The methodology used in this study is Multiple Linear Regression Correlation Test with time series that get from Data Stream and World Bank. Hence, the results of this study would give theoretical understanding of complex interactions between macroeconomic fundamentals, investors` expectations and government policy.

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CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

Asian attracted almost half from the total capital inflows to developing their countries. Asian experiencing also seems indestructible for economic growth until the summer of 1997. Asian financial crisis also known as Asian Contagion, is a series of currency devaluations and other activities that spread through many country in Asian markets beginning in the summer of 1997.

Basically, all of the people know what actually exchange rate is. In simple word, exchange rate is a price of currency while in proper word, exchange rate is the price of nation's currency in terms of another currency. There are two components under exchange rate which are domestic currency and foreign currency. As investors, they will update time by time about the currency of the country. It is important for the investors to make sure they will not make a mistake when they want to make an investment.

Exchange rate plays big roles for any country because it will show the stability and productivity of the country. Lately, we heard many crises for financing especially in Malaysia. There are many factors that may affect the foreign exchange rates, not only for Malaysia, also for the other country. For example, the inflation rates, the interest rates, country's current account, government debt, terms of trade, politic stability and performance and many more.