THE IMPACTS OF OIL PRICES CHANGES ON CONSUMER BUYING BEHAVIORS ON PURCHASING AUTOMOBILE

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SUBMITTED FOR THE FULLFILMENT OF THE REQUIREMENT FOR THE DEGREE BACHELOR OF BUSINESS ADMINISTRATION WITH HONOURS (MARKETING)

FACULTY OF BUSINESS MANAGEMENT UNIVERSITI TEKNOLOGI MARA SARAWAK

JUNE 2015

ABSTRACT

The aim of the research was to examining the impacts of oil prices changes on consumer buying behaviors toward purchasing automobile in Malaysia. The consumers always change their demand on cars if they can observe the current economy and the prices of the oil changes. The prices of oil are very sensitive in Malaysia, because most of the activities was using petrol and gasoline to runs the business and daily routine. Consumers need petrol to move using cars and also business in Malaysia. Let say, automotive in Malaysia, the automotive industry also produce the cars that can adapt the real situation and economical. If the prices of oil increase, the consumer will change their lifestyle to be more economical and switch to economical cars.

Through this research, the impacts of the changes oil prices was given the negative impact if the prices of oil increase, but if the prices of the oil decrease the consumers have the positive relationship. Based on the (L. Ashley et. al 2008), the relationship between gasoline prices and the demand for vehicles fuel efficiency is important for environmental policy but poorly understood in the academic literature. The research provides empirical evidence that automobile manufacturers set vehicle prices as if consumers respond to gasoline prices.

In this research, how impacts the oil prices changes toward consumers buying behaviors on purchasing automobile. The consumers always change their demand if they see the changes on oil prices. This is because; between oil and consumers demand is almost related, such as consumers demand on cars and the prices of oil changes. This research evaluates the impacts oil prices changes toward consumer buying behaviors.

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CHAPTER 1

1.0 INTRODUCTION

This paper investigates the changes of oil prices on the automobile industry. The automobile industry in Malaysia involves two local companies; they are Proton Berhad and Perodua Berhad. These two companies is the backbone industry for Malaysia because they can compete with other foreign automobile industry in Malaysia such as Naza Kia, Volkswagen, Porsche, Nissan, and Toyota. These foreign companies built their firm to distribute their products through Malaysia market and use the cheap labor to produce lower cost of production. They use the high technology and less consumption of oil & gas energy for the production of cars. Local automobile industry has the government support to increase the production. Therefore, they must to compete with foreign automobile industry and foreign brands. Even though, local automobile industry was low technology but they can compete in term of prices and the economical consumption of oil & gas.

This impacts of oil prices changes on consumer buying behavior purchasing on automobile. Assessing the relationship between oil prices, energy consumption and macroeconomic performance in Malaysia is the sample period from (1980-2005) and the time series are subjected to various shortcomings such as autocorrelation, multicollinearity problems and host of other problems: data were first tested for their residuals. The results reveal that there is an evidence for a stable long-run relationship between the changes of oil prices and the automobile industry. Also, this study indicates that the changes of world oil prices also effects the total energy consumption in Malaysia but reserve does not hold in Malaysia context. These studies investigate the changes of oil prices on the automobile industry. Given the dominant effects among the oil price on automobile industry, better response and right

CHAPTER 2

2.0 LITERATURE REVIEW

Nowadays, the importance of the crude oil as the main sources of energy has waned somewhat, due to the appearance of alternative forms of energy such as wind, water, biomass and solar power. Nonetheless, the importance of oil exceeds economic aspects and effects social life in general. Thus, the prevailing view among economists is that there is a strong relationship between automotive industries in Malaysia of the changes oil prices. Precisely, what form this relationship takes, and how it might be modified, and other such questions are issues of outstanding value. As such, the relationship between the macroeconomic variables and the oil prices changes has been extensively analyzed in the literature. Many researchers have concluded that there is a negative correlation between increase in oil prices and the subsequent economic downturns in the United States (Hamilton 1983; Burbidge and Harrison 1985; Gisser and Goodwin 1986; Mork 1989; Hamilton 1996; Bernanke et al. 1997; Hamilton and Herrera 2001; and Hamilton 2003). Also, other studies for other countries found that strong correlation or co-integration relationship between world oil prices and macroeconomic variables exist in the long run (Boukez 2007; Hamilton 2003; Jones et al. 2004; Rodrigues and sanchez 2004; Davis et al. 2005; and Eng & Keong 2004). This relationship seems weaker, however, when data from 1985 onwards is included. Nevertheless, the role of the break-date, 1985-1986, has been considered by only very few researchers, where most of them argued that the instability observed in the relationship may well be due to a misspecification of the functional form employed. The liner specification might as well misrepresent the relationship between GDP growth and oil prices.

This misrepresentation of the linear specification has led to different attempts to redefine the measure of the oil prices changes. These attempts were based on non-linear transformations of