



DETERMINANTS OF INFLATION IN MALAYSIA

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ABSTRACT

Inflation is regarded as regressive taxation against the poor. The most visible impact of inflation in recent times is its effect on real output, relative prices, taxes and interest rate. The study focuses to examine the determinants of inflation in Malaysia using economic indicators. For that purpose, study has undertaken time series data for the period from 1986 to 2015. The major technique to investigate the relationship between independent variables and dependent variable is Regression analysis and Ordinary Least Square method (OLS). A Multiple Regression analysis is carried out to predict the value of a dependent variable, Consumer Price Index. Results indicate that gross domestic product (GDP) and interest rate (IR) are significantly and positively contributed to the inflation rate in Malaysia while money supply (MS) and government expenditure (GE) are significantly and negatively relationship towards inflation. This result shows that interest rate is the most influencing factors in the determinants of inflation in Malaysia.

Keywords: Inflation, Money Supply, Gross Domestic Product, Government Expenditure, Interest Rate