THE IMPACT OF MACROECONOMIC FACTORS ON ECONOMIC GROWTH : AN ANALYSIS IN MALAYSIA

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ABSTRACT

The changes in economic growth in Malaysia have attracted attention to be the most studied construct in finance. Economic growth is one of the indicators of the economy stability. Therefore, this study tries to determine the factors that affecting economic in Malaysia. The objectives of this study are to measure the factors that affect economic growth in Malaysia and to identify the most factor influence between factors listed. This paper analyzes data form 1976 until 2015 by using Ordinary Least Square (OLS) in Malaysia respectively. Foreign direct investment, consumption and nominal exchange rate as macroeconomic variables that affected economic growth. At the end of the research study, only FDI and CONS show strong significant relationship towards economic growth. Lastly, NER shows the most affected to economic growth when NER change 1 percent.

Keyword: Economic growth (Growth), Foreign direct investment (FDI), Nominal exchange rate (NER), Consumption (CONS) and Ordinary Least Square (OLS).

CHAPTER ONE : INTRODUCTION

1.1 BACKGROUND OF STUDY

Economic growth has functions to achieve a good economic in community in effort toward job creation, job retention, tax base enhancements and quality of life. According Samuelson and Nordhaus (1998) stated they compare the capacity of GDP to give a general assumption of the condition of the economy and empowers to policymakers and national banks to judge whether the economy is contracting or extending, regardless of whether it needs a boost or restraint. Malaysia has sustained rapid and inclusive economic growth for close to half a century. Real GDP growth has averaged a commendable 6.4% per year since 1970, outperforming most of its regional peers (Aznam & Bhattasali, 2008). Economic growth related closely to stock market and it is also a strong economic growth that increases the stock performance. During Asian financial crisis on 1997, the growth domestic product per capita drop to negative then led to decline in KLCI. According Asmy et. al, (2009) stated before 1996, investor expected KLCI to achieved 1200 point and maintained it, however due that financial crisis KLCI drop to 500 points.

This paper examines the relationship between macroeconomic variables with the economic growth. Economic growth is the greatest tools to decrease poverty and boosting the quality of life in developing countries such as Malaysia. The population in Malaysia rise rapidly, on 2005 the country had some 26.8 million people and grown on 2016 to nearly 31 million (WorldBankData, 2017). The economic growth have own important when it has been estimated that a one per cent increase in income levels could result in a 4.3 per cent decline in poverty in countries with very low inequality or as little as a 0.6 per cent decline in poverty in highly unequal countries (Ravallion, 2005).

As illustrated, the table below shows the relationship between economic growth and macroeconomic variable consists of consumption, nominal exchange rate and foreign direct investment. This illustrated by using scatter plot to enhancing understanding and general assumption about relationship between economic growth and independent variables selected.