



UNIVERSITI TEKNOLOGI MARA

**THE DETERMINANTS OF BALANCE
OF TRADE IN USA**

KHALISAH ZAKIAH BINTI SAFIEN

Thesis submitted in fulfilment
of the requirements for the degree of
Bachelor of Business Administration
(Hons) Finance

Faculty of Business and Management

July 2017

ABSTRACT

This paper aims to investigate the determinant of balance of trade in United States. United States has been experiencing the trade deficit for years. The issue of this study is the continuously deficit trade balance results in the economy of the country. This paper used Balance of Trade (BoT) as the dependent variable and used domestic income, exchange rate, household consumption, foreign direct investment (FDI), and foreign income as independent variables. This paper using times series to run the result. The data was collected from year 1980 to 2015 and have 36 observations all together. In this study The Ordinary Least Square method (OLS) under the E-View software has been used for the econometric analysis. The result from this paper estimated to show, exchange rate, domestic income measures by GDP per capita and foreign income have significant relationship with balance of trade (BoT). Other two variables which are foreign direct investment (FDI) and household consumption are expected to have no significant relation with dependent variable. The sign for domestic income and exchange rate is negative while foreign income is positive. This study has no problem with heterokedasticity, normality test, and Multicollinearity. Unfortunately, this paper has the problem with Ramsey reset test and serial correlation

ACKNOWLEDGEMENT

Alhamdulillah, thanks to ALLAH S.W.T, the Most Gracious and the Most Merciful for giving me the strength on completing this project paper successfully. All praises and thanks to Him for giving me the times, wills, guidance and strengths through the period of accomplishing this project. This project paper will not successfully complete without cooperation from many parties. They contribute and help a lot in preparing this project paper. I am thankful for every people who provides me the kind assistances or be partly responsible in the success of finalizing the project paper in due time.

I wish to express my sincere gratefulness and gratitude to Madam Norhasniza binti Mohd Hasan Abdullah who acts as my advisor. Special thanks dedicated as well to my fellow classmates and friends for their helps, concerns, morals and materials support. I would like to grab this opportunity to express my deepest appreciation for those who had contributed a great deal towards the completion of this project paper.

I have learnt much about this subject. I wish to extend my appreciation to my family, especially to my parent for their moral support in finishing this project paper. In conclusion, I am grateful to ALLAH S.W.T for his guidance and the continuous good health and wealth which without His blessed, I might have not complete this project paper.

TABLE OF CONTENTS

AUTHOR'S DECLARATION	I
ABSTRACT.....	II
ACKNOWLEDGEMENT.....	III
TABLE OF CONTENTS	IV
LIST OF TABLES.....	VIII
LIST OF FIGURES	IX
LIST OF ABBREVIATIONS/ NOMENCLATURE	X

CHAPTER ONE: INTRODUCTION	1
1.1 Introduction.....	1
1.2 Background Of Study	1
1.3 Problem Of Statement.....	4
1.4 Research Question	6
1.1.1 Main Research Question	6
1.1.2 Specific Research Question	6
1.5 Research Objective	7
1.5.1 Main Research Objectives	7
1.5.1 Specific Research Objectives.....	7
1.6 Significance Of Study.....	8
1.6.1 Economist	8
1.6.2 Policy Maker	8
1.6.3 Exporters And Importers.....	9
1.6.4 Future Researchers.....	9
1.7 Scope Of Study	9
1.8 Limitation Of Study	10
1.8.1 Limited Previous Study.....	10
1.8.2 Short Period Of Study.....	10
1.9 Definition Of Terms.....	10
1.9.1 Balance Of Trade	10
1.9.2 Domestic Income	11
1.9.3 Exchange Rate	11
1.9.4 Household Consumption.....	11

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

These days, United States have confronting with the substantial of trade deficit. These circumstances make the researcher of this study eager to investigate the determinants of balance of trade in USA. The point of this research is to examine the determinant of balance of trade in United States using domestic income, exchange rate, household consumption, foreign direct investment, and the data of foreign income collected from all the country. The reason behind this research is to identify the implication of the United States' excessive trade deficit.

As indicated by Bahmani-oskooee, (2016) the writer mentioned the author of international finance text book have three strategies in the balance of payment used to clarify the determinant for the balance of trade. The three determinants are exchange rate, domestic income and the last one is money supply. The exchange rate is the major determinants for trade balance and policy that has been utilized to cope with deficit trade balance is depreciation. Through the contractionary fiscal, the reducing income can be utilized as a part of the request to minimize the trade deficit. The Keynesian income strategy confirm that the level of economic activity that is measured by domestic income as a main determinant to recognize the level of balance of trade.

1.2 BACKGROUND OF STUDY

USA is one of the countries that confronting with the deficit of import and export issue. Balance of trade deficit can give a negative effect on the economy of USA. Historically, there are right around two decades that the country experienced trade deficit. Trade is sensitive to changes in economic factors of the country. The balance of trade plays the main role in calculating the national income. The trade balance can positively influence balance of payment of the country since the balance of trade is one of the items in balance of payment.