UNIVERSITI TEKNOLOGI MARA

THE EFFECT OF FINANCIAL DEVELOPMENT TOWARDS POVERTY RATE IN MALAYSIA

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ABSTRACT

The aim of this research is to determine the financial development factors that affect poverty rate in Malaysia. The period of this study is from 1986 to 2015 which are 30 years. The research used secondary data and it is a time series research. The dependent variable is poverty rate while the independent variable is financial development. The proxy for poverty rate is household final consumption expenditure per capita while the financial development factors consist of domestic credit to private sector, broad money, inflation and trade. All of the data are obtained from World Bank Databank and the data are regressed using EViews8 software using Ordinary Least Square (OLS) method. Based on the regressed output, only broad money, inflation and trade are significant with poverty rate while domestic credit to private sector is insignificant with poverty rate. Domestic credit to private sector and inflation have positive relationship with poverty rate, while broad money and trade have negative relationship with poverty rate. Based on the assumption test conducted, the error term is normally distributed, exist serial correlation of error term, no multicollinearity between variables, the error term is homoscedasticity and no specification error of error term.

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TABLE OF CONTENTS

CHAPTER ONE
INTRODUCTION

1.1 INTRODUCTION

The topic for this study is the effect of financial development towards poverty rate in Malaysia. This topic is chosen because there are several theories and evidences show that financial development can impact poverty directly, to the extent that it widens access to financial services for the poor individual, and indirectly through its positive impact on growth, which in turn will reduces poverty. This is aligned with the study done by Sehrawat & Giri (2016). This research will also discussed the relationship between variables and how the independent variables affect the dependent variable in studying poverty rate in Malaysia.

This chapter will discussed the background of the study in subtopic 1.2, problem statement in subtopic 1.3, research objectives in subtopic 1.4, research questions in subtopic 1.5, significant of the study in subtopic 1.6 and scope of the study in subtopic 1.7, In subtopic 1.8, researcher will discuss the limitation of the study and definition of terms in subtopic 1.9. Lastly, researcher will conclude this chapter with brief summary of chapter 1.