



**UNIVERSITI TEKNOLOGI MARA  
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**THE DETERMINANTS OF OIL  
PRICE FLUCTUATION IN  
MALAYSIA**

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## ABSTRACT

Following the hiking price of oil and gas products during these recent years, several numbers of studies have been conducted in order to explain the reason behind the increase and decrease in price of oil. On the other hand, the price of oil can be one of the determinants of economic growth. According to past research, the increase in oil price can give negative effects to the society. However, there are some arguments suggested that the incline in oil price can improve government's finance for project development thus stabilize the economic growth. This paper investigates the factors that might have contributed to the oil price increase in addition to demand of oil, exchange rate of USD, geopolitical, tax rate and OPEC's production cost. Moreover, the objective of this paper is to determine whether there are relationship between those variables are with the oil price movement in Malaysia. Basically, the data used in this research paper was collected from the secondary data which is the data gathered from past scholars and researchers for other objectives. The data mainly recovered by using Worldbank Databank, Malaysian Economic Statistic and Energy Commission Malaysia Energy Information Hub. This research uses data obtained from one country, Malaysia across 31 years of observation from the year 1985 to 2015. All of the data are analysed using E-views 8.0 and are tested according to 5 assumptions namely, the Durbin-Watson test, normality test, heteroskedasticity test, correlation test and specification test. As conclusion, the results obtained in this research project are demand of oil and tax rate have significant relationships with the price of oil, while exchange rate of USD and geopolitics have no significant relationship with the price of oil in Malaysia.

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## CHAPTER 1

### 1.1 INTRODUCTION

Oil prices in Malaysia have been fluctuated over these past years, resulting in one of the most dramatic inclines in the price of oil in recent history. This situation has led to a massive body of literature dissecting the factors of an abrupt oil price upturn and its macroeconomics implications. Plus, it helps us to make comparison between oil prices of another country. According to Kilian (2002), the price of goods and services has a positive relationship with the oil price. For instance, the price groceries will increase as the oil price increase (Bernake, 2004). He also claimed that it is called as a chain reaction between supplier and retailer. It is crucial to identify the price determinants because it is not only helps to explain the root of volatile oil prices but also has several economics implications.

There are several macroeconomic factors have been taken in order to conduct this research which are the demand of oil, exchange rate of USD, geopolitical and tax rate to determine whether they have a direct or indirect impact towards the price of oil in Malaysia. The research will focus on Malaysia's oil price as recently Malaysia is having a shocking fluctuation in the price of oil. The economic condition in Malaysia is mainly affected by the oil industry especially in diesel and petroleum. Past researchers have decided that the current economic condition will affect the unstable economic condition.

If a country is having a sudden change in the price of oil, the economic condition of that country will be affected (Christiane and Lutz, 2015). For instance, according to Darbe (2001), he suggested that when the aggregate supply curve shifts backward, the price of oil will be increase. Hence, the country will face a fall in GDP or real income. This act or condition is closely related with the slowing down of the economic activity. Malaysian economy may have a stagnant growth and inflation if this impact takes place in the short run. Some companies especially those where fuel costs make up a large portion of total costs will be mainly affected by such impact. They will eventually cut their cost of production by laying of some workers, shutting down company's