



UNIVERSITI TEKNOLOGI MARA

**THE EFFECTS OF FINANCIAL
DEVELOPMENT TOWARDS
ECONOMIC GROWTH**

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ABSTRACT

Economic growth can be considered among the most critical indicators in a country which is revealed in many literatures or past studies. Thus, this research is done to identify the factors that affect economic growth. That being the case, the matter in the study is in regards to financial development and its effects towards economic growth. Hence, the main purpose is to examine whether financial development does influence the economic growth in Malaysia, where suitable factors for financial development are being determined and chosen from the prior researches. Hence, this study is carried out by using time series data in the context of Malaysia. The multiple linear regression model is regressed using the Ordinary Least Square (OLS) for over 30 years of data analysis. The sample data is collected from 1895 to 2014. The data to this study is obtained from the source of World Bank Databank. The result is analysed through the software of Eviews 8, including descriptive analysis, correlation analysis, multiple regression analysis and tests on assumptions. Throughout this study, each independent variable, which includes domestic credit to private sector, liquid liabilities, and stocks traded, except for market capitalization, are resulted as positively significant variables in determining the economic growth in Malaysia.

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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	5
1.4 Research Question	7
1.4.1 Main Research Question	7
1.4.2 Specific Research Question	7
1.5 Research Objective	8
1.5.1 Main Research Objectives	8
1.5.1 Specific Research Objectives	8
1.6 Significance Of Study	9
1.7 Scope Of Study	10
1.8 Limitation Of Study	10
1.8.1 Accuracy Of Data	10
1.8.2 Lack Of Skills On Using Eview Software	11
1.8.3 Limitations In Collecting Empirical Data	11
1.8.4 Limitations In Time	11
1.9 Definition of Terms	12
1.9.1 GDP Per Capita Growth	12
1.9.2 Domestic Credit To Private Sector	12
1.9.3 Liquid Liabilities	13

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

In this chapter, it will be discussing the overview or background of study, problem statement, research objective, research question, significant of study and the scope of study. This study will be focusing on the effects of financial development towards the economic growth in Malaysia.

In this study, the research will mainly deliberate about the dependent and independent variables. Dependent variable in this study is the economic growth and the independent variables involved are domestic credit to private sector, liquid liabilities, market capitalization and stocks traded.

1.2 BACKGROUND OF STUDY

Due to recession looming and unemployment rising, economists and politicians are trying to find ways and methods of stimulating economic growth. The concept of economic growth is the one which has pulled in the intrigue and focus of researcher around the world to have some analysis or observation towards it. Economic growth is the basic target of all countries. The reality everyone can live with a superior way of life than any time in recent memory is because of the surge in their economic growth. The policy in every nation is meant to lessen the poverty and increase the level on national income. Therefore, to accomplish the fundamental focus of economic growth, governments may execute different sorts of approaches. As indicated by Ayemere Lawrence, Moni, & Eikhomun (2014) in their study, it is stated as an appealing goal to carry out means for expansion of economies in order to upgrade the welfare of the citizenry. This explains why financial literature is repeated with theories and researches exploring factors and determinants that are required by economies to achieve viable advancement.