

LETTER OF SUBMISSION

3 July 2013

Coordinator,

Faculty of Business Management

Universiti Teknologi MARA (Terengganu)

23000 Dungun

Terengganu

Dear Sir/Madam

SUBMISSION OF PROJECT PAPER (ISB666)

Attached is the project title "THE EFFECTS OF ECONOMIC GROWTH, INTEREST RATE AND INTERNATIONAL TRADE ON ISLAMIC BANKING FINANCING" to fulfill the requirement as needed by the Faculty of Business Management, Universiti Teknologi MARA.

Thank you.

Yours sincerely,

WAN NUR HASYIMAH BINTI WAN HANAFI

2010275152

Bachelor of Business Administration with Honours (Islamic Banking)

TABLE OF CONTENT

<u>CONTENT</u>	PAGE
ACKNOWLEDGEMENT	iv
LIST OF TABLE	v
LIST OF FIGURE	vi
LIST OF ABBREVIATION	vii
ABSTRACT	ix
CHAPTER ONE: INTRODUCTION	
1.0 Introduction	1
1.1 Background of the study	2
1.2 An Overview of Islamic Banking Development in Malaysia	3
1.3 Economic growth in Malaysia	4
1.4 Problem Statement	5
1.5 Research Questions	6
1.6 Research Objectives	6
1.7 Scope of the study	7
1.8 Significance of the study	7
1.9 Limitation of the study	7
1.10 Operational definitions	8
CHAPTER TWO: LITERATURE REVIEW	
2.1 Islamic banking industry and GDP	10
2.2 Islamic banking industry and interest rate	12
2.3 Islamic Banking Industry and Trade	13
CHAPTER THREE: RESEARCH METHODOLOGY	
3.1 Theoretical Model	15
3.2 Research Design	16

3.3	Data Collection	16
3.4	Data Analysis	16
3.4.1)	Dickey-Fuller Test for Unit Root	16
3.4.2)	Lag length determination	17
3.4.3)	Johansen Test	17
3.4.4)	Vector Error Correction Model (VECM)	17
CHAPTER FOUR: RESULTS AND DISCUSSIONS		
4.1	Descriptive Statistics	18
4.2	Preliminary Test	18
4.3	Stationary Test	20
4.4	Long-run and Lag Determination	23
4.5	Vector Error Correction Model	24
4.5.1)	VECM Short-run	24
4.5.2)	VECM Long-run	24
CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS		26
BIBLIOGRAPHY		27
APPENDICES		29

ACKNOWLEDGEMENT

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

Warm greetings and thanks to Allah, The Almighty, and The Most Merciful. With the strength given by Him, I am able to complete my thesis report for final year of Bachelor in Business Administration of Islamic Banking.

First of all, this thesis is finished from the results of a series of dialogues with my advisor, Miss Nur Azwani binti Mohamad Azmin. I would like to express my appreciation for her invaluable support, encouragement and useful suggestions throughout this research work. Her moral support and continuous guidance enabled me to complete my work successfully.

Besides, I also would like to express my heartfelt gratitude and thanks to my second examiner, Miss Nur Hayati binti Abd Rahman for her sacrifices, support and assistance in completing this research.

Furthermore, I would like to convey special thanks to my parents, Wan Hanafi Wan Abd Rahman and Roseliza Othman for their love and support throughout my life. Without them this thesis would not be possible to be completed.

Not forgetting my friends whom I met during my three-year study in Mara University of Technology, who had supported me throughout my studies. I want to thank them for all their help, support, concern and unforgettable memories.

Last but not least, I would like to convey my appreciation to all lecturers of Bachelor of Business Administration programme in Mara University of Technology for their guidance and knowledge given to me.

WAN NUR HASYIMAH BT WAN HANAFI

2010275152

ABSTRACT

Many previous studies have focused on the impact of finance on economic growth. However, few studies have examined the impact of economic growth on Islamic banking. Islamic banking industry has received much attention from people around the world today. Therefore, it is important to know whether the macroeconomic variables of economic growth will affect the Islamic banking financing. Based on (2007:1 – 2012:4) quarterly data, the purpose of this study is to investigate the relationships of gross domestic product (GDP), interest rate and trade activities toward the Islamic banking financing in Malaysia. The study has been done using time series analysis available in STATA software. This paper also employs the cointegration test and Vector Error Correction Model (VECM) to see whether Islamic banking development has short-run and long-run run relationship with all the economic variables. The results illustrated there is no relationship between the variables in the short-run. However, in the long-run, the results show that Islamic banking financing has a positive relationship with trade, while it shows a negative relationship towards GDP and interest rate. For future studies, a wider scope is recommended where more determinant factors can be taken into account.