



**THE LONG TERM RELATIONSHIP BETWEEN MONEY SUPPLY,  
INFLATION AND ECONOMY GROWTH**

**FARAH LADIS**

**2011477172**

**BACHELOR OF BUSINESS ADMINISTRATION  
WITH HONOURS (BUSINESS ECONOMICS)  
FACULTY OF BUSINESS MANAGEMENT  
UNIVERSITI TEKNOLOGI MARA  
KOTA KINABALU, SABAH**

**JUNE 2014**

## **ACKNOWLEDGEMENT**

I would like to Allah S.W.T in giving me strength to completing this research. I also would like to express my sincere gratitude to my advisor Mr.Wahi for the continuous support of my study and research, for his patience, motivation, enthusiasm, and immense knowledge. His guidance helped me in all the time of research and writing of this thesis. I could not have imagined having a better advisor and mentor for my research study. To my family that always support me from financially and moral support. To all my friends that always been helpful in completing this research.

## TABLE OF CONTENTS

|                              | <b>Page</b>                            |
|------------------------------|--|
| TITLE PAGE                   | I                                      |
| DECLARATION OF ORIGINAL WORK | II                                     |
| LETTER OF TRANSMITTAL        | III-IV                                 |
| ACKNOWLEDGEMENTS             | V                                      |
| TABLE OF CONTENTS            | VI-VII                                 |
| LIST OF FIGURES              | VIII                                   |
| LIST OF TABLES               | IX                                     |
| ABSTRACTS                    | X                                      |
| <br>                         |  |
| <b>CHAPTER 1</b>             | <b>INTRODUCTION</b>                    |
| 1.0                          | Background of Study 1-6                |
| 1.1                          | Problem Statement 6                    |
| 1.2                          | Research Objective 6                   |
| 1.3                          | Significant of the Research 7          |
| 1.4                          | Scope of the Study 8                   |
| 1.5                          | Limitation of the Study 8              |
| <br>                         |  |
| <b>CHAPTER 2</b>             | <b>LITERATURE REVIEW</b>               |
| 2.0                          | Introduction 9                         |
| 2.1                          | Theory 10-14                           |
| 2.2                          | Literature Review                      |
| 2.2.1                        | Monay supply and Inflation 15-17       |
| 2.2.2                        | money supply and economic growth 17-18 |
| 2.3                          | Conceptual Framework 19                |
| 2.4                          | Conclusion 20                          |
| <br>                         |  |
| <b>CHAPTER 3</b>             | <b>DATA AND METHODOLOGY</b>            |
| 3.0                          | Introduction 21                        |
| 3.1                          | Data 22                                |
| 3.2                          | Measurement of data 22                 |
| 3.3                          | Research Design                        |
| 3.3.1                        | Unit Root Test 22                      |
| 3.3.2                        | Co-integration Test 23                 |
| 3.3.3                        | Impulse Response Function 23           |
| 3.4                          | Hypothesis Development 24              |
| 3.5                          | Statistical Software Use 24            |
| 3.6                          | Conclusion 24                          |

|                  |   |       |
|------------------|---|-------|
| <b>CHAPTER 4</b> | <b>DATA ANALYSIS</b>                              |       |
|                  | 4.0 Introduction                                  | 25    |
|                  | 4.1 Descriptive Statistic                         | 26    |
|                  | 4.2 Unit Root Analysis (ADF) Test                 |       |
|                  | 4.1.1 Unit Root Analysis (ADF) Test at Level      | 27    |
|                  | 4.1.2 Unit Root Analysis (ADF) Test 1st Different | 28    |
|                  | 4.2 Johansen Co-integration Test                  | 29-31 |
|                  | 4.3 Impulse Response Function                     | 32-34 |
|                  | 4.4 Conclusion                                    | 34-35 |
| <br>             |   |       |
| <b>CHAPTER 5</b> | <b>CONCLUSION AND RECOMMENDATION</b>              |       |
|                  | 5.0 Introduction                                  | 36    |
|                  | 5.1 Conclusion                                    | 36-37 |
|                  | 5.2 Recommendation                                | 37    |
|                  | <br>  |       |
|                  | <b>REFERENCES</b>                                 | 38-40 |
|                  | <br>  |       |
|                  | <b>APPENDIX</b>                                   | 41-50 |

## **ABSTRACT**

This paper focuses on the study of the long run relationship between money supply, inflation and economic growth. The sample period of this study consists of 33 years for each variable start from 1979-2011. Cointegration is used to examine the long-run relationship with all the macroeconomic variables. Estimation result indicate a data for money supply is not stationary and the data for inflation and is stationary. The cointegration test also shows us that there is long term relationship between the variables.