



**UNIVERSITI TEKNOLOGI MARA**

**THE RELATIONSHIP BETWEEN  
FINANCIAL DEVELOPMENTS  
TOWARDS REDUCING POVERTY  
IN MALAYSIA**

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## **ABSTRACT**

This study examines the relationship between the financial developments in reducing the poverty in Malaysia by using time series which is from the year 1960 until 2016. Since the data is secondary data, the quantitative approach to research was considered. 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 trade, domestic credit to private sector, broad money and inflation. All of the data are obtained from World Bank Databank and the data are regressed using EViews9 software using Ordinary Least Square (OLS) method. Every country needs an efficient of the financial system to grow because a good of financial system is important to the complete basics of an economy. The efficiency of financial system provides better financial services, and this will increase the economic system of one country and vice versa. The present study seeks to provide some insight into how the financial development and poverty reduction will have the relationship. It is interesting to take Malaysia as a case study for this study for several reasons. Firstly, with rapid economic growth, the financial development of Malaysia as a developing country will become the attention to the world. Then, there has been a significant improvement in its financial system. Malaysia has a rich history of financial sector reform. Several financial rearrangement programs that aim to achieve a better financial system have been launched. Thirdly, Malaysia country has a relatively good database by the standard of developing countries. This provides an added reason for the research. The availability of a set of sufficiently long time series data allows for a time series investigation.

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## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Introduction**

This chapter will cover about the overview of the topic that wants to be studied. This study will focus on the relationship of the financial development towards reducing the poverty rate in Malaysia. It is taken from year 1960 until 2016 as the year of observation. 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 discuss the relationship between variables and how the independent variables affect the dependent variable in studying poverty rate in Malaysia. This study will focus on the variables of Trade, Domestic Credit to Private Sector, Broad Money and also Inflation.

This chapter will discussed the background of the study in subtopic 1.2, problem statement in subtopic 1.3, research questions in subtopic 1.4, research objectives 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.