



THE DETERMINANTS OF INFLATION IN MALAYSIA

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ABSTRACT

This study examines the factor that effecting inflation rate in Malaysia which is money supply (MS), exchange rate (ER) and unemployment rate (UR) from the year 1988 until 2017 which contains yearly data. This paper applies Ordinary Least Square methods in order to define the statistical relationship among the variables. Besides, there are steps involved in the study begin with ordinary least square methods and proceed with Descriptive Analysis, Diagnostic Checking, Unit Root tests and Multiple Linear Regressions.

In Diagnostic Checking, some tests done to check the significant presents of multicollinearity, autocorrelation, heteroscedasticity, the normality of data distribution and model specification. The result of this study show that there is a positive significant relationship between inflation rate and money supply while exchange rate and unemployment rate show a negative significant relationship with inflation rate. The conclusion for the studies shows that the MS, ER and UR are one of the factor that effecting inflation rate in Malaysia.

Keywords: inflation rate, money supply, exchange rate and unemployment rate.