UNIVERSITI TEKNOLOGI MARA

DETERMINANTS OF FACTORS THAT AFFECTING INFLATION IN MALAYSIA

NUR HANA QISTINA BINTI ROSLI
2020993037

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ABSTRACT

One of the primary goals of this research study is to investigate the elements that influence inflation in Malaysia. We investigate the relationship between macroeconomic variables such as Foreign Direct Investment (FDI), Gross Domestic Product (GDP), Interest Rate (IR), Money Supply (MS), Unemployment Rate (UR) and Inflation (INF). This research study includes annual data for the years 1991 to 2019 and covers the time span from 1991 to 2019.

With the help of time series data, it has been discovered that all of the dependent and independent variables are non-stationary at the level but stationary at the first difference. To indicate that the independent variables of macroeconomics items such as Foreign Direct Investment (FDI), Gross Domestic Product (GDP), Interest Rate (IR), Money Supply (MS), and Unemployment Rate (UR) have significance with the dependent variable, Inflation, three important tests such as Descriptive Analysis, Regression Analysis, and Correlation Analysis have been conducted (INF).

The finding showed that there is a statistically significant relationship between Inflation and the following independent variables: Foreign Direct Investment (FDI), Gross Domestic Product (GDP), Interest Rate (IR) and Money Supply (MS). The findings also showed that there is a statistically significant relationship between Inflation and the following independent variables: Unemployment Rate (UR). The empirical findings of this study indicate that macroeconomic factors play an important role in explaining inflation in Malaysia.

CHAPTER ONE: INTRODUCTION

1.1 Introduction

The findings of the research investigation are summarised in the first chapter of the report. It begins with a discussion of the study's historical context and an explanation of the topic at hand. Following that, it digs more into the aims of the study and the issues covered by the study. The research findings and their ramifications are also examined in detail in Chapter 1. Even in the twenty-first century, achieving long-term macroeconomic stability while maintaining price stability is the primary goal of macroeconomic policies in the vast majority of countries around the world. Among other things, when it comes to monetary policy, the emphasis placed on price stability is intended to develop long-term macroeconomics while also enhancing the purchasing power of the local currency (Umaru and Zubairu, 2012).

In recent years, there has been a flurry of debate among policymakers and macroeconomics specialists about whether inflation is bad to the economy as a whole. Recently, the topic of inflation has sparked a tremendous volume of written material as well as a spirited debate. There are many diverse schools of thought on inflation, from classical to Keynesian, monetary to structural, all of which have their own banners and present their own evidence about the nature and causes of inflation. Inflation is damaging in any economy, so it is vital to understand how it is occurring. It is likely that inflation will have a negative impact on economic growth since it creates problems and contributes noise into the economy's operation. To adequately solve the inflation problem, on the other hand, is not a simple task. Accurate identification of inflation-related factors is critical to effectively addressing the problem, as erroneous identification of the nature of the problem may result in the implementation of inappropriate therapies, which may have unintended negative consequences for the economy.

Inflation was seen as a source of concern at the time of the study, and this was widely acknowledged at the time of the study. In attempt to refute these points of view, Phillips proposed the hypothesis that high inflation had a positive influence on the economy by lowering unemployment rates. One can distinguish between two types of inflation, namely, consumer demand-pull inflation and cost-push inflation. Demand pull inflation, which is the most prevalent type of inflation, is the most common type of inflation. Demand-pull inflationary periods are those in which the major source of origin is on the demand side of the economic equation, rather than on the supply side. Many different variables, like as a growth in the money supply, an increase in government purchases and exports, and so on, all contribute to the steady increase in demand that