



**MACROECONOMIC DETERMINANTS OF INFLATION RATE
IN MALAYSIA**

**ROSE AZARINA BINTI AZIZ
2015134945**

**BACHELOR OF BUSINESS ADMINISTRATION
WITH HONOURS (FINANCE)
FACULTY OF BUSINESS MANAGEMENT
UNIVERSITY TECHNOLOGY MARA
MALACCA CITY CAMPUS**

JANUARY 2018

ACKNOWLEDGEMENT

In the name of Allah, the Most Compassionate, the Most Merciful

Praise be to Allah the Al-Mighty for giving me the strength and patience to complete this study within the period given.

I wish to express my sincere gratitude to my first adviser, Mr. Amirudin bin Mohd Nor for his continuous encouragement, invaluable suggestions, patience guidance and supporting me with kindness, sympathy and academic enthusiasm. His forceful comments and meticulous direction were a constant source of inspiration to my research that immensely improved the quality of this project paper. I would also express my profound appreciation to our second adviser Ms. Siti Nurulhuda binti Ibrahim for her comments, guidance and supporting with kindness to fulfill this requirement in completing this project paper.

I also would like to take this opportunity to deliver my deepest indebtedness to my parents for their patience, support and guidance for this research. Furthermore, great appreciation goes to the rest of my friends that help me from time to time during the research. The whole research really brought us together to appreciate the true value of friendship and respect of each other.

Great deals appreciated go to the contribution of my Faculty of Business Management (Finance). Apart from that, I hope that all the information and data I have gathered here will increase the knowledge of anyone who will be accessing it regarding the study on the "Macroeconomics Determinants of Inflation Rate in Malaysia (1985-2016)." it would be a great honor to us if it is used as a reference or for any other good cause.

Finally, I would like to extend this appreciation to all that have directly and indirectly contributed invaluable assistance, cooperation and support in the completion of this research.

TABLE OF CONTENTS

	Page	
TITLE PAGE	i	
DECLARATION OF ORIGINAL WORK	ii	
LETTER OF SUBMISSION	iii	
ACKNOWLEDGEMENT	iv	
TABLE OF CONTENT	v	
LIST OF FIGURES	viii	
LIST OF TABLES	ix	
LIST OF ABBREVIATIONS	x	
ABSTRACT	xi	
CHAPTER 1	RESEARCH OVERVIEW	
1.0	Introduction	1
1.1	Research Background	1 - 5
1.2	Problem statement	5 - 7
1.3	Research objectives	8
1.4	Research question	8 - 9
1.5	Significance of the study	9
1.6	Scope of the study	10
1.7	Limitation of the study	10
1.8	Conclusion	11

CHAPTER 2	LITERATURE REVIEW	
2.0	Introduction	11
2.1	Inflation rate	12 - 15
2.2	Exchange rate	15 - 19
2.3	Oil price	19 - 24
2.4	Unemployment	24 - 27
2.5	Theoretical framework	27 - 28
2.6	Hypotheses of the study	29
2.7	Conclusion	30
CHAPTER 3	RESEARCH METHODOLOGY	
3.0	Introduction	30
3.1	Research design	31
3.2	Data collection	31
3.3	Data processing	32
3.4	Unit root test	32 - 34
3.5	Correlation Analysis	34
3.6	Regressive Analysis	35
3.7	Data Analysis	36 - 39
3.8	Diagnostic checking	39 - 41
3.9	Conclusion	41 - 42
CHAPTER 4	DATA FINDING AND ANALYSIS	
4.0	Introduction	42
4.1	Unit root test	42 - 46

ABSTRACT

The purpose of this study is to investigate the significant relationship between exchange rate, oil price and unemployment with inflation rate in Malaysia. The data collected cover from the year 1985 until 2016 using annually time series data which consist of 32 data observation. Exchange rate, oil price and unemployment were use as independent variable. Unit root test and diagnostic test were being used to test whether it is stationary or non-stationary. The analyses are conducted using multiple linear regression to get the results. Overall, this study achieved the research objectives and research questions where to analyze the significant relationship between macroeconomic determinants with inflation rate in Malaysia. Relationship were tested by using Multiple Linear Regression technique. In this study, confirmed that exchange rate and oil price have a significant positive relationship towards inflation rate in Malaysia. Meanwhile, the result for unemployment is insignificant relationship towards inflation rate in Malaysia. It means that unemployment has no significant effect on Inflation Rate in Malaysia.