



UNIVERSITI TEKNOLOGI MARA

**THE DETERMINANT OF GOLD PRICE IN
MALAYSIA**

**NURHAZIRAH NABIHAH BINTI WAKIRAN
2019294032**

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ABSTRACT

The aim of this study is to examine the factors that are influencing the gold price in Malaysia. In this study, the price of gold is chosen as the dependent variable, while the independent variables used are Gross Domestic Income (GDP), Crude Palm Oil (CPO), Exchange rate (ER), Interest Rate (IR) and Inflation Rate (INF). Annual data is gathered over the period 1981 to 2020. The data is gathered from data stream, world data bank and Bank Negara Malaysia. A multiple linear regression is used in this study. In addition, econometric tests are employed to observe the relationship of the economic variables to the price of gold in Malaysia such as unit root test, normality test, serial correlation, heteroscedasticity, covariance analysis, multicollinearity and ramsey reset test. Interactive software package E-view would be used for testing and analyzing the data collected. The expected result from this study is that there is a significant relationship between gold price in Malaysia with Exchange rate (ER), Interest Rate (IR) and Inflation Rate (INF). On the other hand, Gross Domestic Income (GDP) and Crude Palm Oil (CPO) has no significant relationship with the gold price in Malaysia.

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CHAPTER 1: INTRODUCTION

1.1 INTRODUCTION

The purpose of this study is to examine the factor that influences the gold price in Malaysia. This chapter will briefly discuss the background of the study, problem statement, research questions, research objectives, scope of study, significance of study, limitation of study, definition of terms, and also a summary on this chapter.

1.2 BACKGROUND OF THE STUDY

Gold is a valuable metal that has long been utilized as a financial asset, as a form of property and used to be a basic system of money. Gold is a precious metal that attempts to make it through alchemy have been made for ages. Its first attempts were undertaken in China in the 4th century BCE and in ancient Greece, and the activity laid the foundations for modern chemistry. Gold is a golden, delicate, corrosion-resistant metal that is also the most flexible and moldable. With the increased usage of gold in both the jewelry and industrial products sectors in recent years, gold demand has increased and broadened.

According to Brian, D. (2016), gold has been a source of fascination for almost 6,000 years. The fascinating thing about gold is that it was able to attract people from all over the world independently for unknown reasons, allowing it to become a universally recognized means of exchange. In the international monetary system, gold has always played a significant role. Around 550 BC, King Croesus of Lydia ordered the first gold coins to be produced. They were used as currency in numerous countries before paper money was introduced. Even with the introduction of paper money, currencies kept an explicit relationship to gold.

According to Sukri, M., A., & Zainal, A., (2015), gold is also an excellent investment tool. Due to its price fluctuation, this commodity can be utilized as a hedging technique and converted into currency to help investors counter significant losses. Hedging is also defined as a risk reduction strategy in which an investment is made against the value of an asset. Furthermore, gold is an investment strategy that decreases the danger of loss at any time, as we cannot predict when the next economic downturn will occur.