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A Study on the Factors of Inflation Based in Malaysia

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Abstract

Inflation is one of the most complex macroeconomic phenomena in industrialized economies. This study mainly focuses on examining inflation-related factors in Malaysia. Stepwise linear Regression analysis was applied via SPSS to investigate the significance of the inflation rate, exchange rate, money supply, interest rate and unemployment rate relationship by using time series from 1995 to 2019. The study aimed at determinants of factors that influence Malaysia's inflation. The analytical results found that the money supply and exchange rate have positive impact on the inflation, whereas the unemployment rate and interest rate have negative impact on the inflation. Moreover, The hypothetical results are supported to the exchange rate and interest rate. The remaining other two independent variables do not support the hypotheses. The study suggests that Inflation, pushed up by money growth rate as well as Ringgit depreciation and higher interest rates, has adversely impacted production growth rate. The central bank of Malaysia must seek to control the quality and quantity of credit in Malaysia is through a credit management system. Throughout this purpose, it increases interest rates, sells bonds in the primary and open market through the financial institutions like banks and financial agents, increases the reserve ratio and controls consumer credit.

1.0 Introduction

Inflation is a persistent general increase in the level of prices of all products and services. In economics, inflation is defined as an increase in the general level of services and product prices due to the business partner countries and/or global financial crisis in an economy. Inflation would have many negative effects on a country's economic development and on the nation itself. The high rate of inflation would increase the cost of living and people's living standards in a given country. Through the two decades from 1997 to 2020, Malaysia economy affected two times that had influenced the Malaysia inflation level by the Asian financial

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crisis in 1997, and the global financial crisis in 2008 (Jeon, 2010). Moreover, Malaysian Prime Minister Najib Razak launched a government policy instruments to build a new economic model on 30th March 2010 to turn the economy of Malaysia to a high-income economy from a middle-income by 2020. Here, human capital management plays a significant role in promoting economic development and growth (Islam et al., 2016).

To be sure, inflation has not been a major threat in Malaysia in recent times. But in the third quarter of 2008, policy makers focused their attention to reduce the high inflation about 4.5% for global financial crisis. Inflation is a condition in which aggregate demand for all goods and services in a given economy exceeds the aggregate supply. Nevertheless, the reasons for this excess may be due to higher spending by the private and government sectors and, secondly, due to a lack of demand as well as higher production costs so that it relies on money supply, unemployment rate, and exchange rate. Such disequilibrium can be temporarily caused by a number of factors that affect either the demand side or supply side of the economy. According to, Cheng and Tan (2002) provided evidence that the effects of monetary policy are asymmetric, that are saying that the positive money supply shocks do not affect inflation, while, the negative money supply shocks raising inflation. The intuition behind this is that with positive growth in money supply, banks are free to carry on their lending activities, but in the case of negative growth in money supply, banks are under pressure to reduce their lending activities. One of those problems could be that in times of recession, the policy makers might try to boost the economy by reducing interest rates or buying bonds to raise the stock of money supply. An act, which would require a more significant offsetting future monetary contraction in case it fails to increase the higher inflation.

The persistence of inflation can only be explained by the steady increase in total money supply. In addition, the money supply has been suggested as the most appropriate intermediate goal for fostering sustainable economic growth, including inflation. Governments much of the time blamed a continued rise in the money supply as governments can generate new printing money easily. A government may, for example, print new money to pay its outstanding debt, which is why government-issued bonds are considered to be the lowest risk. For another example, the government might decide to print new money during the pre-election time to build the impression of an economic boom. Increasing the money supply could initially lead to increased economic activity. Research by Cheng and Tan (2002), found that money supply has a positive relationship between and inflation rate. If important means are considered to be the effect of money supply on the inflation rate, then the government should effort to implement the proper monetary policy to control the inflation rate in Malaysia due to the effect of money supply. A study by Menji (2009) conducted a research in Ethiopia has a negative correlation between exchange rates and inflation. The exchange rate and inflation also had an insignificant effect, she stated. Third factor is the rate of unemployment, it has a negative relation with the rate of inflation. That is because, according to the Philips curve, as the unemployment rate increases, the inflation rate will decline, and vice versa. Philips curve may be clarified by the trade-off relationship (Islam et al., 2017). Fourth factor is the interest rate, it is likely to the demand and supply of money from the market while fluctuating interest rate increases influence the market investors to tend to hold financial investments, e.g. in shares, where share prices will go up or down depending on the bank interest rate (when interest rates rise, shares fall and vice versa), and the likelihood that securities investors would experience capital loss or benefit (Maiga, 2017). This study evaluates the 4 main inflation-causing factors including unemployment rate, supply of money, exchange rate and interest rate.

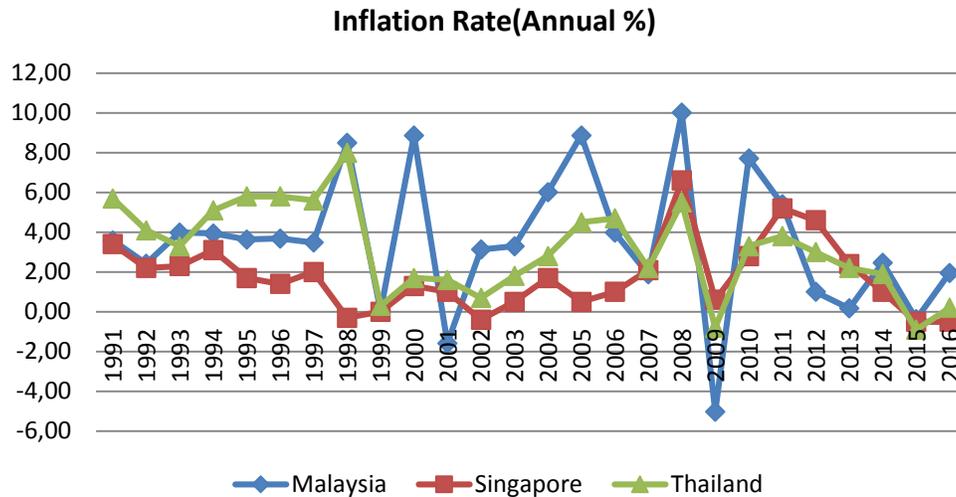


Figure 1: Inflation Rate (Malaysia, Thailand and Singapore)

Source: World Bank

The line graph 1: Illustrates the inflation rate in Malaysia, Singapore and Thailand from 1991 to 2016. The inflation rate decreased during the 26 year period in all three countries. The inflation rates between 1991 and 1997 were almost 4% in Malaysia and Singapore while it was nearly 6% in Thailand. In 1998 the inflation surged rapidly in Malaysia to reach an equal point as in Thailand 8%; however it dropped in Singapore too Thailand and Malaysia inflation rate went down significantly to an equal rate to that of Singapore at 0% in 1999. In 2000 inflation increased in Singapore and Thailand to almost 2%, but in Malaysia it experience a fourfold increase to more than 8%, a rapid fall, followed this peak and the rate decreased into almost -2% during the next year, whereas it decreased only slightly in Singapore and Thailand. The inflation went up in Malaysia and Thailand in 2004 and 2005 until it reached in Malaysia to almost 9%. The inflation rate in Malaysia dropped sharply in the following two years, then soared in 2008 to reach 12%, which was the peak of the entire study period, the rate also rose in Singapore and Thailand in the same year. All three countries experienced deflation, but it was the lowest in Malaysia where it rough in almost -5%, this was also the lowest rate among the three countries in the 26 years. This was followed by a considerable increase in inflation in Malaysia in 2010 where it reached 8%, and it increased in Thailand and Singapore but less than that of Malaysia. In Singapore and Thailand the inflation continued to decrease in 2014 and 2015 until they reached less than 0; however, in 2014 it raised in Malaysia to 2%, then came back to 0 in 2016. In the last year, inflation grew up in Malaysia and Thailand to 2% and more than 0 respectively, but it stayed at the same level as the previous year in Singapore. We can see that the inflation in Malaysia was highly fluctuate during the 26 years, especially if there is any crises in economy like 1997 and 2008 crises.

Consequently, this study aims at investigating identify the factors that affecting the inflation level in Malaysia. Therefore, based on this topic, this study has been exploring the research hypothesis and methodology for identifying the inflationary impacts. Thus, this research answers the following question: what are the economical factors influence on the inflation rate in Malaysia. This research also contributes to the theoretical part to enrich the existing literature on the economic factors affecting on inflation in Malaysia that has been studied very little. The central bank has identified elaborate actions like controlling money supply, exchange rate, credit facilities, and unemployment and so on. More specifically, we have tried to determine if money supply, exchange rate, unemployment rate and the interest rate actually caused the price level to rise in Malaysia or not. This study covers the period of 1997 to 2019.

2. Literature Reviews:

In the literature, various factors were used to explain inflation, as stated earlier. Factors commonly used in previous studies will be discussed in this section and it has been possible to collect statistics about them, in the case of Malaysia.

Inflation is while the most goods and services price start to increase. Cheng and Tan (2002) stated that Malaysia's inflation rate was well overcome during the country's financial crisis compared to other countries facing high inflation during that time. Their empirical analysis found that inflation affects different factors economically and leads to economic problems that can reduce a specific country's economic growth. According to Friedman (1977), he asserted that inflation is everywhere a monetary phenomenon in which, he stated, inflation is a situation that makes the price level in a specific country slowly increase without limitation. As a result of periods of high inflation in the 1970s, monetary authorities were ardently pursued policies to minimize total rates of inflation by curbing projected inflation without losing output or triggering high levels of unemployment. In the developing economies, fixed exchange rate policies have opted for an inflation targeting strategy instead of following the floating exchange rate framework (Taguchi & Kato, 2011). Asian economies have historically undergone a fairly stable and low-inflation regime (Gerlach et al., 2009). Results of the study from 12 countries in Asia Pacific have shown that there are small variations in inflation between Asian nations that formally implement the policy of targeting inflation and those that do not.

2.1 Money Supply

Money supply can be characterized as circulating printing notes and coins on the money market (outside the central bank). The approach of the Austrian Economists to excess money supply and inflation presents a higher causal relationship than conventional macroeconomic models indicate, and somewhat greater justification for interpreting the 2008 global financial crisis (Templeman, 2010). The financial recession that involves the housing market bubble has left millions of low-income homeowners puzzled by their perceived wealth disappearing. Some challenged and blamed the Federal Reserve for an unsustainable monetary system by holding interest rates low in financing the bubble "beyond prudent bounds," whereas others omitted the Federal Reserve as a cause entirely. (Schwartz, 2009; Aloma et al., 2019; McDonald & Stokes, 2013). Studies by Husain (2007) and Poole (1994), both of them argued that these two factors have a direct correlation, implying that the inflation rate will always increase as the money supply rises. Moreover, Poole (1994) has been using time series data for 13 countries, he conducted a study about the correlation between inflation rate and money supply. Based on his study, he found that the high rate of inflation in a nation exists because of the high supply of money in the country itself. A research work by Cheng and Tan (2002) appeared that the principal factors influencing the inflation rate by money supply. They have shown that providing money has a direct moderating impact on inflation. It has been confirmed, according to the results of the data used for the study, that money supply has a major positive impact on inflation. But Altowaijri (2011) found that inflation rate had not affected by the money supply. Alexander et al. (2015) found that money supply and other factors affect inflation in the long run. From the brief analysis of previous studies, it can be found that the strength and direction of the relationship between money supply and inflation are hard to generalize. Hence, it is hypothesized that:

- *The first Hypothesis is a significant positive relationship between the money supply and inflation rate.*

2.2 Exchange Rate

Identified by Ferrero and Seneca (2015), a reserve bank with a policy to stabilize the Consumer Price Index (CPI) may raise interest rates to limit inflationary effects from depreciation on the exchange rate. In addition,

with the U.S. Dollar, the Chinese Renminbi faced the changes in import price affecting the exchange rate. The exchange rate has been at the forefront of the debate in several countries about macroeconomic policy for decades. The exchange rate is an inflation-influencing factor that is used as an economic instrument to control the number of misalignments that countries face, and tends to be commonly implemented in most structural adjustment programs around the world, often used by the central as a strategic policy tool to lead the capital flows throughout the economy. Exchange rates have a negative influence on the rate of inflation, according to Olatunji et al. (2010). He examined factors influencing inflation in Nigeria with the use of data from time series. Moreover, Al-Ezzee (2016) found the inflation impacts of exchange rates, among other factors. He also found that the Consumer Price Index (CPI) level is primarily dependent on monetary factors, such as the Nominal Effective Exchange Rate (NEER). Laryea and Sumaila (2001) empirically tested the relationship between inflation and exchange rate in Tanzania, where found parallel or positive correlation currency exchange rate plays a key role in determining inflation in the short- and long-term. However, Aurangzeb (2012) claimed that the factors of inflation such as , exchange rate, interest rate, and the unemployment rate have a negative correlation to the inflation rate. Thus, it is hypothesized that:

- *The second hypothesis is a significant positive relationship between the exchange rate and inflation rate.*

2.3 Unemployment Rate

Ponzoni and Zilli (2015) considered that the relation between the rate of inflation and the rate of unemployment was a trade off. They analyzed the relation based on inflation in Brazil using the Phillips curve. Their analytical results showed that there is a positive relation between the rate of unemployment and inflation. In contrast, Furuoka (2007) investigated the relationship between the rate of inflation and the rate of unemployment. He evaluated this relationship using data from the time series in Malaysia from 1973 until 2004. The results revealed that there is, in the long term, a negative relationship between unemployment and inflation rate. Likewise, Linzert (2003) displayed a negative connection between unemployment and inflation rate. The rate of inflation and the rate of unemployment have an inverse relation (Holden, 2001; Hasnat, & Alom, 2017). The Government could not manage to concurrently regulate all of these variables. That's because, the government wants to lower the unemployment rate, they have to confront the high inflation problem dramatically, and vice versa.

- *The third hypothesis is a significant positive relationship between the unemployment rate and the inflation rate.*

2.4 Interest rate

The interest rate has a strong effect on customer and investor behaviors. When the interest rate is at a higher level, buyers tend to save more money in banks by reducing consumption spending. Conversely, reducing interest rates makes investing money in a savings account less appealing, rising consumer spending and growing aggregate demand cause economic growth and stimulate inflation. The interest rate influences the economy widely. Darrat (1985) revealed that empirical testing of the interest rate and inflation relationship showed that external monetary influences such as international interest rates have major positive impacts on inflation level. Moreover, The general effect, when interest rate is raised, is a reduction in the amount of money in circulation which tends to keep inflation low. Interest rates may be used as a policy indicator to monitor the volatility of the exchange rates and have potential inflation expectations. It indicates the inverse relation, respectively, between the inflation rate and interest rate (Asari et al., 2011). The influence of the interest rate on inflation is considered to be positive or negative, depending on the intent of the bank loans. When the majority of the loan is sectioned for the manufacturing sector, a higher interest rate will raise the borrowing costs and maximize the inflation rate. Aurangzeb (2012) observed that inflation has a positive impact on the interest rate. Saleem et al. (2013) observed an optimistic inflation-interest-rate

relationship. Hashim et al. (2014), on the other hand, found a negative correlation between inflation and interest rate; Then it is hypothesized

➤ *The fourth hypothesis is a significant negative relationship between the interest rate and the inflation rate.*

2.5 Literature Framework of the Research:

In summary, the literature review suggests that this study aims at investigating the inflation relationship factors in Malaysia with money supply, unemployment rate, exchange rate, and interest rate. Thus, this designed research will follow as-

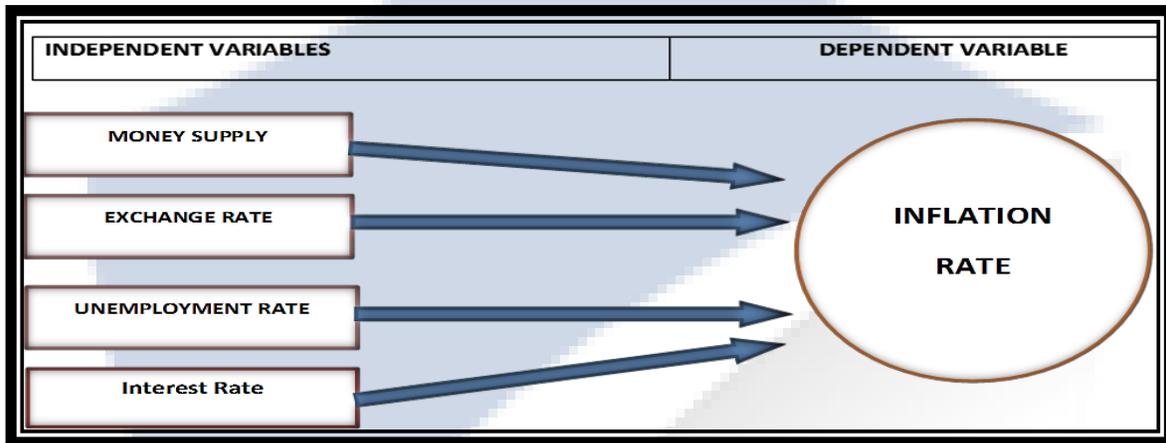


Chart 1 Research Design

3.0 Methodology

The study applies regression analysis by using the SPSS statistical package to examine the significant impact of money supply, unemployment rate, exchange rate, and interest rate on inflation in the Malaysian economy for a period of twenty-five years starting from 1995-2019.

3.1 Data

Annual data, covering the period 1995-2019, were collected from the World Bank Database to identify factors responsible for inflation in Malaysia. The regression analysis is being used by the statistical program SPSS software. This defines both dependent and independent variables as follows:

3.1.1 Inflation Rate: The overall estimate for a weighted average of consumer products and services' aggregate prices such as transportation, food and medical care. Inflation fluctuations are used to measure market changes correlated with the cost of living.

3.1.2 Money Supply: The whole stock of currency as well as other liquid instruments in the economy of a given time in a country. Coins, cash and deposits kept in banking and saving accounts can be included in the money supply.

3.1.3 Exchange Rate: Exchange rates for the same nation can be different as well. There is an offshore rate and the onshore rate in some situations. In general, there is always a more favorable exchange rate within a country's border than outside its borders. Malaysian's Ringgit is also a government-controlled currency against the US dollar.

3.1.4 Unemployment Rate: The unemployment rate is the number of unemployment in the civilian labor force divided by the total country's employable people. An economic situation characterized by the fact that people actively seeking jobs remain unemployed. Unemployment is interpreted as a percentage of the total workforce available.

3.1.5 Interest Rate: The interest rate is the lender's percentage of principal paid for the use of its money. Interest rate impacts on consumers' expenditures. If the interest rates are high, bank loans cost more. The economy is slowing as we borrow less from individuals and companies, and spend more. The opposite occurs when interest rates go down. Consumers and firms are spending more, saving less and speeding up economic growth. Yet low interest rates will generate inflation as well as that sounds. This regulatory rule impacts the economy by controlling the money supply.

3.2 Model specification

In this study inflation is considered as the dependent variable, whereas inflation determinants are the independent variables, namely money supply, unemployment rate, exchange rate, and interest rate. We may describe the regression model in mathematical terms as follows:

$$\text{Inflation, } Y = \alpha + \beta_1 \text{MS} + \beta_2 \text{EXR} + \beta_3 \text{UNEMR} + \beta_4 \text{IR} + e$$

Where,

Y= Inflation, (INF);

α = intercept or constant;

MS = Money Supply;

EXR = Exchange Rate;

UNEMR = Unemployment Rate;

IR = Interest Rate;

β_i = Partial coefficient to MS, EXR, UNEMR and IR.

3.3 Descriptive statistics:

The mean value, the value of standard deviation and also the number of sample data are the determinants of explaining the meaning of the consistency of time series data and the importance of the different periods in Malaysia.

Table 1: The Descriptive Statistics of Variables

	Inflation Rate	Money Supply	Exchange Rate	Unemployment Rate	Interest Rate
Mean	2.909	11.489	3.156	3.756	3.094
Median	2.700	10.295	3.120	3.395	2.975
Mode	1.420	-43.74a	3.800	1.00a	1.68a
Std. Deviation	1.901	14.502	0.648	1.514	1.237
Skewness	1.310	0.493	0.154	1.406	1.304
Kurtosis	2.954	12.166	-1.478	2.410	2.758

Minimum	0.290	-43.740	2.180	1.000	1.430
Maximum	9.700	71.910	4.300	8.290	7.360

The descriptive statistics for the variable used can be seen, according to table 1. Five factors exist, such as one dependent variable is the inflation rate, and four independent variables are money supply, unemployment rate, exchange rate, and interest rate. In addition, we can see in this table's standard deviation indicates that the data from the selected country are significant and volatile as well. Regarding the standard deviation, money supply was more volatile (e.g., Highest 10.295) due to the currency devaluation in the Asian financial crisis and global crisis as well. As, money supply was volatile, the exchange rate was also affected by the both of financial crisis. Its indicate that the highest volatility. In addition, the skewness variation between the variables has been illustrated, and based on the kurtosis method, the series looks leptokurtic reflecting that the underlying data has a higher peak and fatter tails than a normal distribution.

3.4 Autocorrelation

This test is used in the economic model which was developed to classify the Durbin Watson (d-test) for testing autocorrelation. Upon referring to the lower limit and upper limit of the d value based on the d-statistics obtained, the Durbin Watson's value obtained from the SPSS result is tested.

Table 2: This table provides the estimation of R, R², adjusted R² and standard error which can be used to determine how well a regression analysis fits the set of data:

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.896 ^a	.804	.766	1.76454	.715

a. Predictors: (Constant), Interest_Rate, Unemployment_Rate, Money_Supply, Exchange_Rate

b. Dependent Variable: Inflation_Rate

Table 2 highlights results of the Durbin-Watson (d-test), the computed d-test being $d = 0.715$ ($0 < d < 2$) that means there is strong evidence that the variable has high autocorrelation. A result of 0.896 represents a good predictive level. The decision column coefficient represents the R² value 0.804 that explains 80.4 per cent of the variability of our predictor variables like over fit. Adjusted R Square (77 per cent) provides us with more precise indication that is almost the same as R².

3.5 Regression Analysis

This study consisted of quantitative method and is used to identify the relationship between dependent and independent variables using the regression model equation.

Table 3: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-4.490	6.113		-.735	.471	-17.202	8.222
	Money_Supply	.009	.036	.033	.256	.800	-.065	.083
	Exchange_Rate	.110	.045	.325	2.429	.024	.016	.204
	Unemployment_Rate	-.020	1.010	-.002	-.020	.984	-2.120	2.079
	Interest_Rate	-.933	.101	-.972	-9.219	.000	-1.144	-.723

a. Dependent Variable: Inflation_Rate

$$\text{Inflation, } Y = \alpha + \beta_1 \text{MS} + \beta_2 \text{EXR} + \beta_3 \text{UNEMR} + \beta_4 \text{IR} + e$$

$$Y = -4.490 + 0.009 \text{ MS} + 0.110 \text{ EXR} + (-0.002) \text{ UNEMR} + (-0.933) \text{ IR}$$

$$(6.113) \quad (0.036) \quad (0.045) \quad (1.010) \quad (0.101)$$

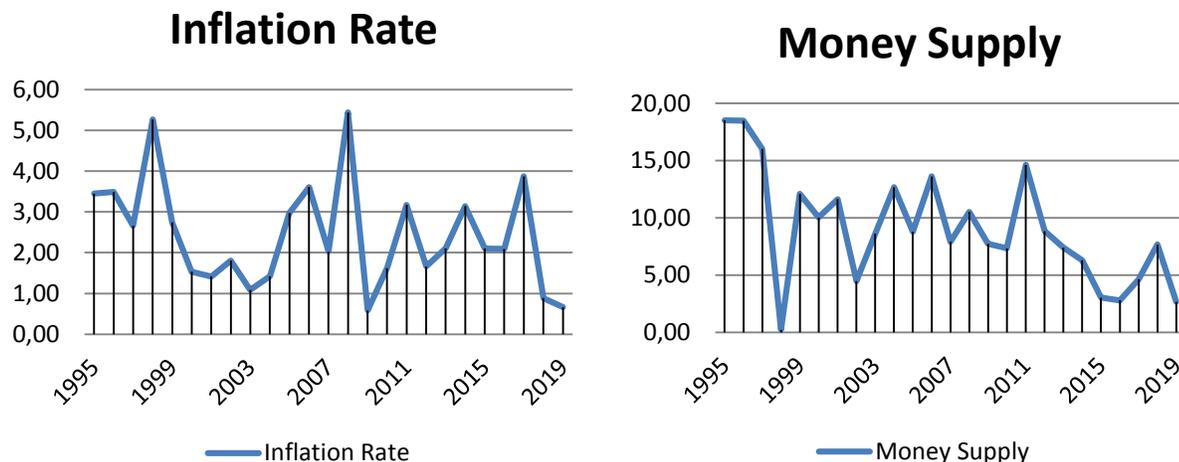
The regression model equation expresses the linear relation with variables shown in Table 3. The regression model shows the relationship between the independent variables, namely money supply, unemployment rate, exchange rate, and interest, and the dependent variables are inflation rate in this model. According to the regression analytical results found a negative correlation between unemployment rate, interest rate towards dependent variable that is inflation rate has been proved. It indicated that whether there is an increasing trend in the inflation by 1 value, independent variables, which are the unemployment rate, and exchange rate will drop by 0.002 and 0.933. Conversely, there is a significant correlation between inflation and money supply, according to monetarist theory. When the inflation rate in Malaysia is increasing by value 1, independent variables which are supply of money and exchange rate will increase by 0.009 and 0.110. We may conclude that, all of the two independent variables we tested, which are interest rate and exchange rate are statistically significant and remaining the two variables are money supply and unemployment statistically insignificant.

Table 4: Interpretation on the Significant of Regression Coefficients

	Inflation Rate	Money Supply	Exchange Rate	Unemployment Rate	Interest Rate
Inflation Rate	1.00				
Money Supply	-0.036 (0.863)	1.00			
Exchange Rate	-0.029 (0.887)	0.615** (0.001)	1.00		
Unemployment Rate	-0.085 (0.678)	0.207 (0.311)	-0.088 (0.667)	1.00	
Interest Rate	-0.838 (0.000)	0.276 (0.173)	0.386 (0.052)	0.063 (0.758)	1.00

Asterisks ***, ** and * presents significant at 1%, 5% and 10% levels, respectively. (2-tailed).

As we can see from table 4 the relationship between the independent and dependent variables is negative and there are only three significant relationships between variables. The first one is the interest rate with inflation at 1%. The second one is the exchange rate with the money supply at 5%. The third one is the exchange rate with an interest rate at 10%. All of the other relationships between variables are insignificant.

Figure 2: Times- Variant Exposures

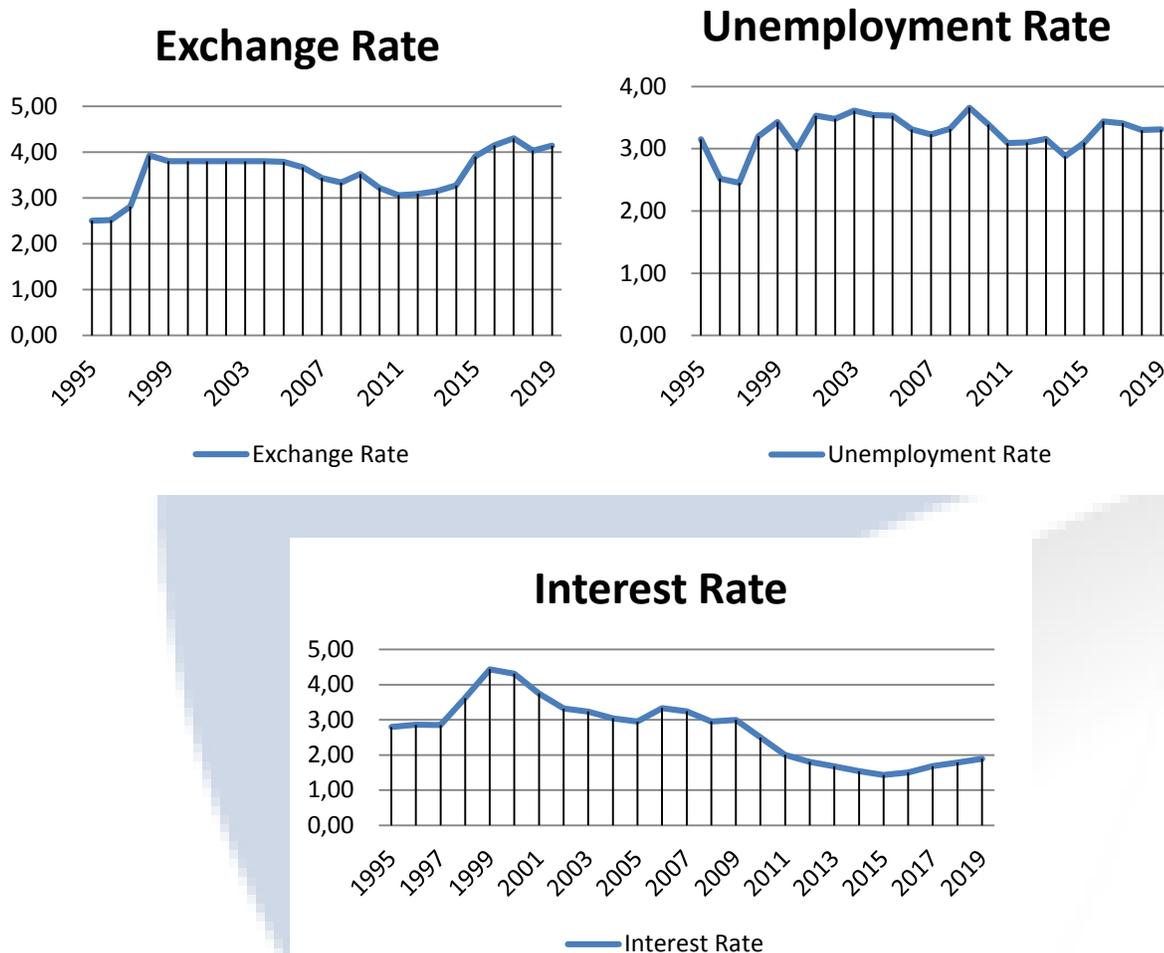


Figure 2 above shows the display of time variability in our study. Starting by spanning the overall time series, the study first looked into the data profile of all variables based on the Malaysian economy. Figure 2 shows the annual percent change in the inflation rate compared with the previous year's inflation rate. The inflation rate in Malaysia declined by 1.3 percent in 1998, after a 0.54 percent drop in 2008. As inflation rate fell in the periods of the Asian financial in 1998 and global financial crisis in 2008 for money supply (0.0% vs 3.9%), exchange rate (2.5% vs 2.5%), unemployment rate (2.4% vs 3.2%) and interest rate (2.8% vs 3.2%).

4 . Findings and Discussion:

The results of the regression analysis for long-term inflation rate are shown in table 4. The predicted money supply is not significant at $p < 0.05$ to inflation rate, but money supply is positively influenced on the inflation level. It indicates that rise in interest rate increases the rate of inflation as well. Thus, H1 is rejected. Nonetheless, Iya and Aminu (2014) noted that supplying money has a positive long-term effect on inflation. That is because, central bank intends to increase the money supply of the market, it would eventually lower interest rates at the same time. So then this situation will lead to the inflation problem, as the money supply of the economy rises unlimitedly. According to the hypothesis test, exchange rate coefficient depicts a positive and insignificant relationship with the inflation rate, while the coefficient level is 5 percent. From the significant level, H2 is accepted. In addition, Laryea and Sumaila (2001) empirically tested the relationship between inflation and exchange rate in Tanzania, where found parallel or positive correlation

currency exchange rate plays a key role in determining inflation in the short- and long-term. Threefold, the unemployment rate is a negative and insignificant correlation with the dependent variable, which is the inflation rate. Therefore, we reject H3 hypothesis. Contradictory result found by Islam et al. (2017) that there is a correlation between unemployment and inflation rate, which was negative and statistically significant. Finally, the interest rate has a negative relationship with dependent variable is inflation and also significant to its dependent variable at $p < 0.01$. From the significant level, H4 is accepted. The results support the study of Asari et al. (2011) indicated the inverse relation, respectively, between the inflation rate and interest rate.

Inflation is usually followed by a reduction in aggregate supply equivalent to the increase in aggregate demand. It can be controlled for aggregate demand by increasing the production of goods and services and reducing benefit from capital. Hyper inflation will affect Malaysian economy negatively. In Malaysia, there are more variables that may influence inflation as the R-square value exceeds 70%. This reveals that the four key factors addressed in this research are just a part of the factors driving Malaysia's inflation. Inflation is a massive issue every where will not only impact a country's economic growth, but will also impact the CPI, the jobs market, affect foreign investments, and so on, the government must aim to reduce extravagant spending on semi-development projects to solve the high-inflation problem in Malaysia.

5 .Conclusion:

This study evaluates the inflation variables linked to the money supply of Malaysia, exchange rate, unemployment rate, and interest rate. The period of study is from 1995 until 2019. The data collected from the IMF database for this analysis. The study examined the effects of the money supply, the exchange rate, the inflation rate, and the unemployment rate. In general, the findings of this study show that the macroeconomic variables have a relationship with the inflation. From the analysis results, it can see that the money supply and exchange rate have positive impact on the inflation, whereas money supply is insignificant and exchange rate is significant at $p \text{ value} < 0.05$ to the inflation in Malaysia. On the other hand, the unemployment rate and interest rate have negative impact on the inflation, whereas unemployment rate is insignificant and the interest rate is significant at $p \text{ value} < 0.05$ to the inflation. We then test this hypothesis for Malaysia economy, and find evidence in favor of the hypotheses are supported to the exchange rate and interest rate. The remaining other two independent variables do not support the hypotheses.

Consumer price regulation and rationing is another effective mechanism for reducing inflation. The government is seeking to provide price stability by setting an upper limit for the retail prices of basic consumer goods and services. Apart from that, the government should use monetary policy to solve the high inflation issue in Malaysia. One way in which the central bank of Malaysia must seek to control the quantity and quality of credit in Malaysia is through a credit management system. Throughout this purpose, it increases interest rates, sells bonds in the primary and open market through the financial institutions like banks and financial agents, increases the reserve ratio and controls consumer credit.

Depreciation of Sterling has led to export growth in Malaysia by enhancing foreign competitiveness, and it has the higher rate of money supply growth. Interest rates were constant and contractionary in the long run, liquidity became non-neutral. Compared to these figures the higher the interest rate is the greater the liquidity in the financial system. Inflation, pushed up by money growth rate as well as Ringgit depreciation and higher interest rates, has adversely impacted production growth rate. The duty to slash the Malaysia's inflation rate.

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