

The malaysian consumer price index economics essay



The consumer price index (CPI) is measurement of the percentage change through time in the cost of purchasing a constant group of goods and also services and it also representing an average pattern or index from the purchases made by the citizen in one specific period of time. The Index is started since 1967 = 100 (which is the based year) was the index for the Peninsular Malaysia while the Index for the year 1980 is referring to Malaysia which means that the whole Malaysia. All the series of data of the CPI are based on internationally accepted statistical procedure. Each of this series is follow the recommended classification contained in the United Nations System of National Account (SNA), 1968 that must be followed by every country in measuring CPI. The most commonly methods or formula that been use to analyze and collect the data of CPI is Laspeyres, which is based on the item that are locally consumed reflecting the spending habits of average citizen. The items then been include in the Consumer Price Index is usually a necessity product or the product or services that been continuously used by the consumer. In prior 2006 the goods and services were classified according to Classification of Household Goods and Services (CHGS) with the nine main group which is Food, Beverage and Tobacco, Clothing and Footwear, Gross Rent Fuel & Power, Furniture and Furnishing & Household Equipment and Operation, Transportation and Communication, Recreation Entertainment Education and Cultural Services, and lastly is Miscellaneous goods and services. These baskets of consumer product have been changes from CHGS to COICOP (Classification of Individual Consumption According to purpose) in year 2006 until now and the additional group of product has been change to twelve which is Alcohol and Non-Alcohol Food and Drink and Routine Household Maintenance, others are remained constant.

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1. 1 BACKGROUND OF STUDY

This study conducted to examine what is the causal relationship between economic variable and Malaysian CPI. The main purpose of this research is to reveal the relationship of economic variables impact towards the CPI for the last five years. The consumer price Index or CPI is the general and major indicator that explained the changes in retail price paid by the household for goods and services. CPI measures the changes in the general level of prices of a fixed basket of goods and services which represents the items which are normally consumed by an average household in Malaysia with reference to the base period. The CPI is designed to provide a broad measure of changes in retail prices experienced by Malaysian households as a group and should not be expected to exactly reflect the experience of any individual household. Therefore it will keep changes depending on the many factors that will influence it. The economic variable that been research in this study is inflation rate, Exchange rate, Palm oil, Money Supply and also Consumer Price Index. This research wants to reveal what is the variable that will have the relationship with Consumer price Index. Although the existing research provides some support links between the economic variable and CPI there is need for additional research.

1. 2 PROBLEM STATEMENT

Consumer Price index is one of the major indicator in one country because of it's explained the average general price of consumer product in that country. This is important because of its related with the efficiency of the country in managing the price of the consumer product that will remain changes from

time to time. Therefore it is very important to understand what exactly the factors that lead to the change on the CPI and the methods to control the changes. It is not good if a country have a higher consumer price index compare to the average household income, it means that the household have a constraint in spending their money towards necessity product. Thus, in this research the main point is to know which economic variables that will give an impact towards the consumer product and the efficiency of the variable influence the CPI.

1. 3 RESEARCH QUESTION

In this study, there are several research questions that has been developed regarding the problem statement occurred. The research question of this research is:

1. 3. 1 To find out the current condition of the Consumer Price Index

1. 3. 2 To find out the reason the fluctuation of Consumer Price Index

1. 3. 3 To identified the effect of the economic variable towards the consumer price Index

1. 3. 4 To find out the consequences of the impact towards the country and household.

1. 3. 5 To list the ways to overcome a large fluctuation of the Consumer Price Index.

1. 4 OBJECTIVE OF STUDY

Several studies on CPI found that it is a common view that every country has a fluctuation on the Consumer Price Index. However, it cannot be denied that some of the economic variable will impact the fluctuation of CPI and it are been prove by the past research that been found in the abroad study. Therefore the main purpose of this study is to know the impact of the economic variable that been used as a variables towards the Consumer Price Index.

1. 5 SIGNIFICANT OF THE STUDY

There are several others factors that lead to the fluctuation or changes on the consumer Price Index such as political decision making, political stability, and a government decision development plan. In this study we just only want to research on the economic variable that would give a huge impact towards the CPI, compare to the others economic variables and the significant of the impact.

1. 6 SCOPE OF STUDY

The scope of this study would cover the consumer price product in Malaysia and the significant changes of the consumer product price. Next, this study also cover some of the economic variable that been choose as independent variables.

The time horizon used in this study is single cross sectional where the economic variables may come from consumer price index (CPI), interest rate, foreign exchange, Money supply and palm oil.

1. 7 LIMITATION OF STUDY

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Time constraint has been encountered ever since the study has been started at the early semester 2011 until April 2011 therefore its difficulty in order to distribute questionnaire and have a respondent and get a feedback on CPI.

The study has been done by using the data that been collected and also the recent past supporting journal that have been done.

This study is based on the data collected from the secondary sources and also the primary resources. The data been collected from the beginning January of the year 2005 until December end 2010. The time period of this research is for the 5 years.

1. 8 DEFINITION OF TERMS

1. 8. 1 CPI

CPI volumes represent the Consumer Price Index which is the average general price of consumer product that been group in Malaysia.

1. 8. 2 Inflation rate

The rate at which the general level of prices for goods and services is rising, and, subsequently, purchasing power is falling

1. 8. 3 Exchange Rate

The price of one country's currency expressed in another country's currency. In other words, the rate at which one currency can be exchanged for another

1. 8. 4 Money Supply

The entire quantity of bills, coins, loans, credit and other liquid instruments in a country's economy.

1. 8. 5 Palm oil

Palm oil is the current price of the Palm Oil in countries.

1. 9 SUMMARY

Consumer price index is one of the major indicator that been see in evaluate the condition of one country. There are a few other indicator that can been use to evaluate one country such as the criminal cases, population, economic and others variable but the most preferable indicators is CPI because its related with the consumer which is the customer and price which is resources and leads to the revenue. So it is important to control CPI simultaneously with the household income because of its have a negative correlations. This study will examine the impact of economic variable towards the CPI. Few economic variables are taken to test whether there are any significant correlation between the dependent and independent variables.

CHAPTER 3

METHODOLOGY AND DATA

3. 0 INTRODUCTION

The objectives of this study are to find the correlation between the economic variables and impact towards the consumer price index. Specifically, this

study is determined which variable is have a huge impact towards the movement of the CPI. Therefore by doing this research we can exactly get the true information on the movement of the consumer price index rather than make assumption based on the own ideology. To achieve the objective of study, several test have been use to get the result of the variable.

Example of the test that wants to be done is T-Test, F " Test and Multiple Regressions. The test has been choosing because of it will give a clear and transparent view on the result and its uncomplicated compared to others test that more complicated. This test also have been supported by the hypothesis based on the understanding on the issued that been research or discuss. The hypothesis is the early assumption on the result that will happens at the end of the study.

3. 1 DATA COLLECTION

Data concerning on the historical of CPI and the economic variables were gathered to see whether there are any correlation between the dependent and all those independent variables.

The secondary data will be collected from the past recent journal regarding this study. The study or research have been develop by the foreign people or country, but the variable is not the same but still similar. The journal that been used is only for support the consumer price index situation.

3. 2 SAMPLING FRAME

To secure an acceptable result, this study decided to use 5 economic variables from others economic variables and the data is collected for 5 years and in monthly basis.

3. 3 SOURCES OF DATA

The data on the dependent variables CPI was collected from the Malaysian Department of Statistic and the data are updated until December 2010 which is on the current updated. The data is in Malaysian Ringgit (RM). Next for the independent variables the data are been collected from the DataStream which is for Inflation Rate in percentage (%), Exchange rate in Malaysian ringgit (RM), Money Supply in Malaysian Ringgit (RM), and lastly for the palm oil is still in the Malaysian Ringgit (RM). The data have been collected from January 2005 until December 2010 and by using monthly data basis.

3. 4 VARIABLES AND MEASUREMENT

The variables used in this study can be categorized into two main types which are the dependent and the independent variables.

3. 4. 1 Dependent Variables

The dependent variable for this study is the Consumer Price Index which will be measured in terms of average general level of price that been group under COICOP.

3. 4. 2 Independent Variables

For this study, there are four independent variables that will be measured.

There is the inflation rate, exchange rate, Money Supply and Palm Oil

3. 5 RESEARCH DESIGN

This research is designed to explore the relationship between dependent and independent variables. In this study, it engages in hypotheses testing that will explain the certain significant correlations between economic variables and the decision of going public.

3. 5. 1 Purpose of the Study

The purpose of this study is to determine the causal relationships between economic variable and CPI or want to know the impact of the economic variable towards the CPI.

3. 5. 2 Types of Investigation

This study involved the correlation types of investigation which is want s to investigation the relationship between the variables whether have a strong relationship, semi strong relationship, weak relationship and lastly is no relationship with the variables.

3. 5. 3 Unit of Analysis

In this study, Consumer Price Index, Exchange Rate, Inflation rate, Money Supply, Palm Oil Price.

3. 5. 4 Time Horizon

This study will use monthly basis data from year January 2005 until December 2010

THEORETICAL FRAMEWORK

There is a classical theory that explained the high correlation between the economic variable factors influence the fluctuation of the Consumer Price Index

Dependent variable: Consumer Price index

Independent variables: Inflation rate, exchange rate, Money Supply and Palm Oil Price.

Figure 1: Schematic Diagram (Relationship Diagram)

Inflation Rate

Independent Dependent

Consumer Price Index

Exchange Rate

Money Supply

Palm oil Price

According to the schematic diagram above, it can be elaborated that the Consumer Price Index are determine by the inflation rate, Exchange Rate, Money Supply and Palm Oil Price.

3. 6 DATA ANALYSIS AND TREATMENT

The statistical tools use in the study is Multiple Linear Regression Model. This model of analysis is done to examine the simultaneous effects of several independent variables on a dependent variable that is interval scaled. In other used since is can explain the correlation between the dependent and independent variable. By using this correlation we can identify which variable will affect most on the dependent variable. This equation is one of the method that easier to use and understand.

Multiple Linear Regression Model:

(Equation 1)

Where;

Y = Dependent variable which represent Consumer Price Index

= The constant number of equation

= Independent variable which represent Inflation Rate

= Independent variable which represent Exchange Rate

= Independent variable which represent Money Supply

= Independent variable which represent Palm Oil Price

= Error

3. 7 HYPOTHESIS STATEMENT

Consumer Price Index movement can be influenced by many factors. The changes in these CPI may significantly change the spending of consumer and household. The consumer price index may also be effect by others external factors that can't be measures by using the data as an example political, government plan , and criminal cases that are happens and increase from time to time. Thus, there is important to make the hypothesis before makes a research and construct a finding. This hypothesis is bringing a general assumption the impact of the economic variables towards the consumer price index.

Hypothesis 1

H0: inflation rate is a main contributor of the increasing in oil price.

Hypothesis 2

H0: exchange rate is not a main contributor to the changes in general level of price.

Hypothesis 3

H0: Money supply also a contributor to the movement of the Consumer Price Index level.

Hypothesis 4

H0: Palm Oil is not a main contributor to the changes in average level of consumer price Index.

3. 8 SUMMARY

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In the nutshell, this chapter will provide the research design that will be used in this study. The study aims to determine the relationship between economic variable factors and the consumer price index. This research will be done in accordance to the objective where to know whether there is any significant relationship between the economic variable factors with the average general price of CPI. This information will perhaps can be used by the household, private and public sector, for them to make a plan in the current general consumer price Index. Since study focuses on the data from 2005 until 2010, it would give a better picture on the movement of the historical CPI until current price influence by positive relation economic factors.