

**THE EFFECT OF PRODUCTION OF SELECTED  
AGRICULTURE PRODUCTS AND MONEY SUPPLY ON GDP  
OF AGRICULTURE SECTOR IN MALAYSIA**

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OF AGRICULTURE SECTOR IN MALAYSIA**

**BY**

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## ABSTRACT

*Agriculture sector plays the vital role in Malaysian economic because of the contribution of agriculture during the early stages of the national economic growth until now. The purpose of this paper is to examine the effects of the selected agriculture sector (palm oil, rubber, rice and saw logs) in the agriculture sector and to examine the impact of money supply across employment and productivity of labour and capital in agriculture sector. This paper uses the secondary data from year 1981 until 2010 from the Department of Statistics Malaysia, Malaysia Productivity Corporation (MPC) and Asian Development Bank (ADB). By using Johansen-Julies Cointegration model, the results showed there is long run relationship between dependent variable and independent variables. But, in Granger Causality model, result showed there is no relationship between money supply and productivity variables. While, this paper also conducts other tests such as Autocorrelation, Ramsey RESET and Histogram Normality Test.*

**Keyword:** Agriculture Sector, Money Supply, Johansen-Julies Cointegration, Granger Causality.

## ABSTRAK

*Sektor pertanian memainkan peranan penting dalam ekonomi Malaysia kerana sumbangan sektor ini pada peringkat awal pertumbuhan ekonomi negara sehingga kini. Tujuan utama kajian ini adalah untuk menguji kesan pertumbuhan sektor pertanian terpilih (minyak kelapa sawit, getah, padi dan kayu balak) dalam KDNK sektor pertanian dan untuk menguji kesan bekalan wang dalam pertumbuhan tenaga kerja dan produktiviti buruh dan modal dalam sektor pertanian. Sumber-sumber data sekunder dari Jabatan Perangkaan Malaysia, Perbadanan Produktiviti Malaysia (MPC) dan Bank Pembangunan Asia (ADB) dari tahun 1981 hingga tahun 2010 telah digunakan sebagai maklumat. Dengan menggunakan model Johansen-Julies Cointegration, keputusan telah menunjukkan bahawa wujud hubungan jangka panjang di antara pembolehubah bersandar dengan pembolehubah bebas. Tetapi dalam model Granger Causality menunjukkan bahawa tiada hubungan di antara pembolehubah bekalan wang dan produktiviti. Sementara itu, kajian ini juga telah menjalankan ujian-ujian yang lain seperti Autocorrelation, Ramsey RESET dan Histogram Normality Test.*

**Kata kunci:** Sektor Pertanian, Bekalan Wang, Johansen-Julies Cointegration, Granger Causality.

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## LIST OF ABBREVIATIONS

ADB	Asian Development Bank
ADB	Bank Pembangunan Asia
ADF	Augmented Dickey-Fuller
AIC	Akaike Information Criterion
FTZ	Free Trade Zone Area
GDP	Gross Domestic Product
IMD	International Institute for Management Development
KDNK	Keluaran Dalam Negara Kasar
MPC	Malaysia Productivity Corporation
MPC	Perbadanan Produktiviti Malaysia
NAP3	The Third National Agricultural Policy
NAP4	The Fourth National Agricultural Policy
OLS	Ordinary Least Squares
RESET	Regression Equation Specification Error Test
RGDP	Real Gross Domestic Product
VAR	Vector Autoregressive Model
VECM	Vector Error Correction Model

# **CHAPTER 1**

## **INTRODUCTION**

### **1.1 Introduction**

Malaysia is well known as a beautiful country and rich with traditional culture in Asia and by economic development Malaysia is categorized as a developing country. Malaysia's competitiveness ranking surged into the top ten in the world as Asian countries took the first two spots after financial turmoil and an economic crisis by 20<sup>th</sup> May, 2010. According to latest IMD World Competitiveness Yearbook 2010, Malaysia's competitiveness ranking rose to 10<sup>th</sup> from 18<sup>th</sup> a year earlier, as the country benefited from strong demand from Asia as well as implementation of efficient government policies, especially government policies. On the other hand, Malaysia is now ranked in the 5<sup>th</sup> place as most competitive country in Asia Pacific because of high scores in business and government efficiency.

Recently, the Malaysian economy recorded 10.1 percent growth in the first quarter of year 2010, which was the highest quarterly growth in a decade. The Malaysian currency ringgit is Asia's best performing currency for year 2010, as foreign money has poured into domestic capital markets due to a combination of strong economic growth and rising interest rates. The ringgit has appreciated by about 6 percent

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