

HOUSEHOLDS' SAVINGS BEHAVIOUR IN MALAYSIA – A HES ANALYSIS

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Abstract

The main objective of this paper is to analyze some factors that may affect level of saving among household in Malaysia; and to test the validity of life-cycle hypothesis using the Household Expenditure Survey (HES) 2004/5 obtained from Department of Statistics, Malaysia. Two statistical methods were applied in this paper, the OLS (Ordinary-Least Square Method) and WLS (Weighted-Least Square Method). The findings have supported the life-cycle framework; with most of the variables were significantly affect households' level of saving. The finding is hoped to assist the policymakers with better understanding in households' savings behaviour.

Introduction

Empirical studies on savings behaviour theories among households in fully developed and developing countries have been one of the focus areas among researchers. There were two main approaches involved in conducting these researches. The first approach is by using the aggregate data while the second

approach is focused on micro data analysis. The first approach that has taken much attention by most researchers looks into savings behaviour by using the time-series analysis. While the second approach, helps to answer question on whether the use of micro-level data were the most appropriate to study the behaviour. It is widely known that most of the savings theories are developed in term of individual motive but in Malaysia, some empirical studies were conducted by using the time-series data, which later were seen as having some flaws. The main objective of this paper is to examine the characteristics of households' saving behaviour, based on the life-cycle saving hypothesis framework developed by Attanasio & J (1998) and to identify its determinants. This study is anticipated to provide some inferences which could not be obtained when using time-series approach.

Literature Review

This study was conducted to test the life-cycle hypothesis from the one developed by Modigliani & Brumberg (1954) while the theoretical framework of

