



Faculty of Economic and Business

**EDUCATIONAL INEQUALITY, ECONOMIC GROWTH AND  
INCOME DISTRIBUTION IN MALAYSIA**

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Degree of Bachelor of Economics  
(International Economics)  
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**EDUCATIONAL INEQUALITY, ECONOMIC GROWTH AND INCOME  
DISTRIBUTION IN MALAYSIA**

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This project is submitted in partial fulfillment of  
the requirements for the degree of Bachelor of Economics with Honors  
(International Economics)

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**“Educational Inequality, Economic Growth and Income Distribution in  
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where due reference is made.

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## **ABSTRACT**

### **EDUCATIONAL INEQUALITY, ECONOMIC GROWTH AND INCOME DISTRIBUTION IN MALAYSIA**

**By**

**Nor Asriah binti Ismail**

This study is undertaken to identify the relationship between the disproportion of education distribution among domestic population as well as the economic growth towards the disparity of income allocation in Malaysia. By using 31 years (1974–2004) data on student enrolment at three levels of educations (EDNEQ), the Gini index, Gross National Product (GNP) growth rate, per capita GNP and annual total population, the variables are tested by employing Augmented Dicky Fuller (ADF) unit root test, Least Square and Correlation Matrix. Consistent with Psacharopoulos (1977) and Lopez (2005), we found that the education variation and growth are positively associated to the income inequality. Then, from the inverse outlook, the income disparity still has a positive relationship to the educational inequality. This study had utilized two models that applied by Psacharopoulos (1977) in evaluating educational difference (EDNEQ), while modifying the regression used by Ram (1981 and 1984) to estimate the inequality of income distribution (YINEQ) among Malaysian households.

**ABSTRAK**

**KETIDAKSAMARATAAN PENDIDIKAN, PERTUMBUHAN EKONOMI  
DAN PENGAGIHAN PENDAPATAN DI MALAYSIA**

**Oleh**

**Nor Asriah binti Ismail**

Tujuan kajian ini dijalankan adalah untuk mengenalpasti hubungan di antara ketidaksamarataan pendidikan dan pertumbuhan ekonomi terhadap ketidaksamarataan pendapatan di Malaysia. Dengan menggunakan pelbagai data bagi tempoh 30 tahun (1974–2004), seperti jumlah kemasukan pelajar ke tiga peringkat persekolahan, indeks Gini, keluaran dalam negara kasar (KDNK), pendapatan per kapita dan jumlah populasi tahunan, semua pemboleh ubah diuji dengan menggunakan kaedah ujian Augmented Dickey Fuller (ADF), Least Square dan Correlation Matrix. Bertepatan dengan Psacharopoulos (1977) and Lopez (2005), hasil kajian ini menunjukkan ketidaksamarataan pendidikan dan pertumbuhan ekonomi mempunyai hubungan yang positif dengan ketidaksamarataan pendapatan. Daripada arah yang lain, ketidaksamarataan pendapatan juga mempunyai mempunyai hubungan yang positif dengan ketidaksamarataan pendidikan. Kajian ini telah menggunakan kaedah yang diaplikasikan oleh Psacharopoulos (1977) untuk menilai ketidaksamarataan pendidikan sementara mengubahsuai regresi yang digunakan oleh Ram (1981 dan 1984) untuk menganggarkan tahap ketidaksamarataan pengagihan pendapatan di kalangan isi rumah di Malaysia.



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## CHAPTER ONE

### INTRODUCTION

#### 1.1 Introduction

Undoubtedly, an issue of inequality in income distribution has long been a topic of interest among economists. At the beginning, they are just concentrated on whether inequality is required for growth and how income distribution changes with economic growth. However, in currently, there has been twisted concern in understanding the determinants and the dynamic of income distribution since the new data sets and advances in the theorist of economic growth and development are available.

In Malaysia, there has always been sensitive to the income distribution concern, especially in the early stage of independence. Indeed, this issue started to arise when there was an unbalance of income distribution among the ethnic groups, the Malay (Bumiputera)<sup>1</sup> and non-Bumiputera (Chinese and Indian). From the period of 1957 to 1970, the average of income for non-Malay augmented faster compared to Malay's income. This growing inequality permitted the rich to be involved in speculative activities that contributed to the ensuing economic failure. In addition, around 1970, the situation became worst because of poverty problem that occurred

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<sup>1</sup> It is includes the other indigenous groups from Sabah and Sarawak that accounted for 67.3% of the 25 million Malaysia total population

among the Bumiputera. Logically, this is due to unbalance plus different economic activity participations<sup>2</sup> among those races that have been practiced since before independence. As we know, after independence, the situation not changed a lot where most of the Bumiputera still participated in agriculture sector and in the less-skilled occupations; instead of the Chinese and Indians, that majority involved in highly and high-income employment. Moreover, from the corporate sector, the former owned the share capital of companies just about 2.4 percent, while both Chinese and Indians hold about a third and for foreign interest, they owned about 63 percent.

Overall, we organized this first chapter as follows. Section 1.2 will portray the concern on economic growth and income distribution in Malaysia. Then, the matter of education and distribution of income will be explained in the Section 1.3. Next is Section 1.4 refers to the problem statement of the study, which will be divided into two sub section related to our topic. We also will further illustrate the objectives, the significant of the study, theoretical framework, and the scope of the study in the Section 1.5 to 1.8. As usual, the final section will be the conclusion of the Chapter 1.

## **1.2 Economic Growth and Income Distribution in of Malaysia**

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<sup>2</sup> In 1957, 73 percent of Malays were involved in agriculture, forestry and fishing, compared to only 40 percent of the Chinese and 56 percent of the Indians (Shastri 1993)

The development experience by the Asia region between the 1960s and the 1980s has been represented as one group of economies grew rapidly known as Newly Industrializing Economies<sup>3</sup> (NIEs) followed by several economies of Southeast Asia, while another group did not, referred to the economies of South Asia. As one of NIEs, Malaysia high growth rate of the whole economy is closely related to the thorough growth of manufacturing sector wherein accelerated tremendous growth rate in the period of 1970 to 1995, except for 1981 to 1985 time. Indeed, this rapid growth of the manufacturing sector resulted in a significant transformation of the Malaysia economy. The revolution had led to the growth of employment opportunities as well as the distribution of labor force by sectors. The employment shares in the primary sector deduced from 49.3 percent to 15.2 percent while the industrial and services sector rose from 15.2 percent and 35.5 percent to 36.1 percent and 48.7 percent respectively over 25 year-period (1975-2000). From this situation, the labor market becomes so firm in the 1990s when some sub-sectors have to route the imported labor from abroad.

Based on Malaysia (1971, 1986, 1991a, 1991b, 1996) and Economic Report, various issues, Ministry of Finance, it is reported that the real (in 1978 prices) gross domestic product (GDP) of Malaysia grew at an average of 7.8 percent per year in 1970s but slowed down to below 6 percent in 1980s. In anticipation of Asian Financial Crisis (1997/1998), the average growth rate in the 1990s beat 8.5 percent. However, the growth rate fall by 7.4 percent in 1998 but improved promptly to reach a growth rate of 6.1 percent in 1999 and 8.3 percent in 2000. The slow down of the US economy,

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<sup>3</sup> NIEs consist of four East Asia countries, which are Malaysia, Thailand, Indonesia and China.