The Miracles Impact of Inflation Rates on Stock Market Returns Volatility Evidence from Asia: Developing Countries Vs Developed Countries

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PREFACE

An efficient stock market acts as a barometer to economic growth. Investors and policy makers therefore rely on estimation of market returns as a barometer of the economic growth and stabilization. Inflation rate is one of the main factors that contribute to the volatility of stock returns. Theoretically, the higher the inflation fluctuates, the greater the risk for stock returns. In this study, Generalized Autoregressive Conditional Heteroskedasticity (GARCH) model has been used to analyze the impact of inflation rate volatility on stock returns volatility for six Asian countries: Philippines, Singapore, Malaysia, India, Korea, and Japan. The findings suggest that the effects of inflation rates on stock market returns volatility shown mixed results, where there are both positive and negative results.

The importance of this study is our results of the study market returns volatility in these countries are expected to give a new sign and knowledge regarding the situation in stock markets condition especially in these Asian countries. It is also can be used as a reference for the future researcher that is interested on searching and solving the inefficiency of stock market returns.

The thesis had been divided into five main parts that is introduction, literature review, data and methodologies, findings and the last part is conclusion and recommendation. In chapter 1, the introduction, the objective of the study, limitation of the study, the scope of study, the theory associated with study, the significant of the study and review on the topic will be discussed. In Chapter 2, previous studies by other researcher's papers will be mentioned in hope that reliable evidence can be writing up in the review of literatures. In Chapter3, the data and methodology that being used is explained clearly. Chapter 4, results and findings is elaborated to come out with a recommendation suitable from the analysis. Last but not least in Chapter 5, an overall conclusion will be stated for summarizing the overall studies.

ABSTRACT

This paper aims to examine the relationship between inflation and the stock market return volatility. In financial market, the condition of stock market return volatility is the major concern among investors as it brings the investment risk. In this study, we use Generalized Autoregressive Conditional Heteroskedasticity (GARCH) model to estimate the volatility return of stock market for each given country. The impact of inflation rate has been investigated in order to know either there is predictive power for stock market volatility in Six Asian countries. The findings suggest that impact of inflation rate on the stock market could be both the positive and negative relationship depends on the market environment. We found that our empirical results show all the developed countries which are Singapore, Japan, and Korea have negative relationships between inflation rate and stock market returns volatility while most of developing countries that we tested show positive relationships except for India. Countries with the higher the rate of inflation relatively has greater stock market volatility where the risk is greater in the market.

LIST OF TABLES