UNIVERSITI TEKNOLOGI MARA

THE MACROECONOMIC VARIABLES OF MALAYSIA, INDONESIA AND SINGAPORE AND THEIR RELATIONSHIP WITH THE UNITED STATES STOCK MARKET INDEX

FAWWAZ BIN MUHAMAD
2020953763

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ABSTRACT

A stock market index is a form of a portfolio investment that is part of in the financial market. Stock market index is crucial for investors to determine the changes in the market. Furthermore, it also acts as a reference for investors to measure the company performance which will also influence the stock price. Hence, investors are able to diversify their investments in order to minimize the risk and also measure a specific sector and the market. The main objective of this research paper is to detect any relationship between the macroeconomic variables of the selected ASEAN countries which is Malaysia, Indonesia and Singapore and the stock market index in United States specifically the Dow Jones Index. The macroeconomic variables that have been choose in this research paper is Gross Domestic Product, Real Interest Rate, Unemployment Rate, Balance of Trade and Consumer Price Index which will act as the independent variables in this study. Other than that, this research paper has use fifteen (15) years of time frame which is from 2005 until 2020. The raw data that has been collected is taken from a reliable source such as Trading Economics, World Bank Open Data, Macro Trends and Market Watch. In addition, this study has used the panel data method which the data are used to frame the model by using the same subjects for each different time in order to measure the observation. Lastly, the findings in this research paper have concluded that independent variables such as Gross Domestic Product, Real Interest Rate, Balance of Trade and Consumer Price Index has a significant relationship with the Dow Jones Index while independent variables such as Unemployment Rate shows that there is no significant relationship between the variables and the Dow Jones Index.

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INTRODUCTION

1.1 INTRODUCTION

Macroeconomic variables of a country are one of the main factors that are correlated to the stock market index on each country. These factors are mainly used by the market participants and the policy makers in order to evaluate the stock performances to obtain a higher return and avoid a mass loss. Until this day, the research on the both macroeconomic variables and stock market index are still been presented and use on the other research and are one of the hot topics to be debate among the researchers. Many investors and researchers considered that the economics activities will give a huge impression on the stock market as it will shows the volatility prices for the stocks that are listed in the market. However, there are others who believes that the stock market performances are the factor that give a huge boost to both financial and economic growth of a country (Jamaludin et al., 2017).

Most of the ASEAN countries stock market has significantly developing and shows an immense growth for such a long period which has driven some of the international investors and researchers to make an investigation and research on the countries stock market index by comparing it with the macroeconomic variables as they believe that the economic variables are the main factor to the positively stock market index on the ASEAN countries. Furthermore, the capital market will basically support the growth on the economic sector as they will provide the channel for an investment which will attract the foreign and domestic investor to provide the capital. Thus, it will benefit both sector which will shows a growth on the countries development and the stock market performance (Keswani & Wadhwa, 2017).

The success of a country economy and their stock market index are determined by the macroeconomic variables. For example, macroeconomic variables are the factors that will indicate the price movement of the stock in the stock market. Thus, with a good and positive macroeconomic variable, the price of the stock will show a positive and