UNIVERSITI TEKNOLOGI MARA

MACROECONOMIC FACTORS AFFECTING MALAYSIA AND THE UNITED STATES OF AMERICA STOCK MARKET INDICES

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ABSTRACT

The stock market is the place for investors and other parties to seek funds for their business. The stock market also serves as a barometer of a country's market index's performance and reflects investors' perceptions of the economy's health. The main objectives of the study is to fill the gap of knowledge by finding out how the stock market indices of Malaysia and the United States were affected/influenced by the macroeconomic variables named gross domestic products (GDP), inflation rate (CPI), unemployment rate (UR), and exchange rate (EXC) for the independent variables. The study was conducted for thirty-nine (39) years from 1982 to 2020, and the data used for this study is secondary data. As for the countries involved in this study, Malaysia and the United States of America are selected. The data for these countries are collected from the World Bank Open Data website. The study applied panel data to frame a model to measure the observation from the same subject each time. Based on the findings, the study found that independent variables, the gross domestic product, and exchange rate, have a significant positive impact on the stock market indices. In contrast, the unemployment rate significantly impacts the stock market indices, and meanwhile, the inflation rate shows an insignificant impact on the stock market.

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CHAPTER ONE
INTRODUCTION

1.1 Introduction

Macroeconomics is a discipline of economics that investigates the behavior of an entire economy, a market, or other large-scale systems. Inflation, price levels, economic growth rate, national income, gross domestic product (GDP), and variations in unemployment are all studied in macroeconomics. Governments will use the results of the macroeconomic variables to aid or assist in crucial decision-making for government policy in their respective countries. Developing the country's economy, particularly the stock market indices, will be administered by an effective governance strategy on macroeconomic variables. The stock market is critical for capital formation and economic progress. "It also serves as a vehicle for project risk diversification, which helps to reduce the amount of uncertainty surrounding investment returns." (Chauque, D.F.F., & Rayappan, P.A., 2018).

Policy-makers will use macroeconomic factors like GDP, unemployment rate, inflation rate, exchange rate, money supply, and others to create a suitable economic and financial growth environment. This event implies that the relationship between gross domestic product, unemployment rate, inflation rate, exchange rate, and money supply and stock market indices must be investigated. The macroeconomic variables can positively or negatively impact the government's strategy, depending on the country's policies and economy. Assume the policy is in favour of the investors. In that instance, we can notice a shift in upward momentum in stock market indexes, indicating strong belief in the countries' policy-makers. When policy favours investors less, we see a downward trend in stock market indexes, signalling a lack of confidence in policy-makers. (Auzairy et al., 2011).