



**UNIVERSITI TEKNOLOGI MARA**

**FACTORS INFLUENCING SHARE PRICE VOLATILITY IN  
MALAYSIAN STOCK MARKET**

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**FEBRUARY 2022**

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## ABSTRACT

The target in this study is to know the relationship and effect of factors including macroeconomic factors as independent variables which can influence the volatility of share price in Malaysian stock market. There is four (4) independent variables that will be studied in this for 6 companies with the data and statistic for five (5) years from 2016 to 2020. Share price volatility is chosen to be the independent variable and four independent variables which is interest rate (INT), foreign exchange rate (FRX), inflation rate (INF) and also dividend payout ratio (DPR). All result in this study is examined using time series data analysis using EVIEWS 12 to analyse the data.

**Keywords:** Share Price Volatility (VOL), Interest rate (INT), Inflation Rate (INF), Foreign Exchange Rate (FRX)

## **ACKNOWLEDGEMNT**

First before everything, I would love to praise to Allah the Almighty for all the blessing and help the He showers to me to fulfil and finish this paper that has given to complete my Bachelor's Degree. This specific duty has been done using all my strengths and efforts even there is limitation of time in finishing this research paper since I have to fulfil the Industrial Training as final year students as a requirement to complete my Degree.

I would like to reveal my sincere and deep gratitude to Dr Fatin Farazh, as my advisor in this study for all her time, patience, guidance, advices, ideas and encouragements during the journey in finishing this study paper. She always supports me and update the progress or any problems that occurs in this research. Any misunderstanding and unclear information will be solved with a consultation with her. Deeply thank you for allowing us to borrow your time and attention during this study. A big appreciation to her in allowing us to do this study paper and guiding us from the beginning even she has to deal with her busy schedule.

The completion of this study paper may not be finished without the help and support from my friends. I want to thank them, for their help and support in finishing this study paper, together with all valuable information and ideas in making this study paper. Without them, I think this study paper cannot be this better in information and data. Therefore, I deeply would like to thank all my friends and lecturers who contributed directly or indirectly in this research as they shown and gives all their effort until this study paper can be completed.

Alhamdulillah and thanks to everyone very much. I hope that all data and information in this paper can help and bring benefits to everyone. In Shaa Allah.

Contents

**CHAPTER 1** ..... 1

**INTRODUCTION**..... 1

**1.1 Introduction of Study** ..... 1

**1.2 Background of study** ..... 2

**1.3 Problem Statement**..... 3

**1.4 Research Questions** ..... 5

**1.5 Research Objective** ..... 5

**1.5.1 General Objectives** ..... 5

**1.5.2 Specific Objective**..... 5

**1.6 Significance of study** ..... 5

**1.7 Scope of the Study** ..... 6

**1.8 Limitation of the Study**..... 7

**1.8.1 Lack of Research on the Subject**..... 7

**1.8.2 Data Reliability**..... 7

**1.9 Definition of Key Terms** ..... 7

**1.10 Summary**..... 8

**CHAPTER 2** ..... 10

**Literature Review** ..... 10

**2.1 Introduction**..... 10

**2.2 Share Price Volatility**..... 10

**2.3 Interest Rate** ..... 11

**2.4 Inflation Rate**..... 12

**2.5 Foreign Exchange Rate**..... 13

**2.6 Dividend Payout Ratio**..... 13

**2.7 Theoretical Framework**..... 14

**2.8 Summary**..... 15

**CHAPTER 3** ..... 16

**RESEARCH METHODOLOGY** ..... 16

**3.1 Introduction**..... 16

**3.2 Sampling** ..... 16

**3.3 Data Collection** ..... 17

**3.4 Variables** ..... 17

**3.4.1 Dependent Variable** ..... 17

**3.4.2 Independent Variables**..... 18

**3.5 Research Design** ..... 18

# CHAPTER 1

## INTRODUCTION

### 1.1 Introduction of Study

Last 30 years shown that there are many things happened in stock market all around the world including Malaysia. The stock market condition has fluctuated very unstable and more widely. There is a discussion done for a Trudy of stock price volatility by Poterba and Lawrence (1984), Berument and Kiyamaz (2001). There is a finding that the volatility of share price will often follow the cluster trend. If the share price is high in volatility in one period, it will affect and create the high volatility for the next period. Vice versa, when the share price has low volatility, the next period will follow with low volatility (Bollerslev, Kroner and Chou, 1992; Ng and Kroner, 1998). Following to this matter, share price volatility can be a tool to forecast and predict the sock return.

There is a saying stated that share price volatility is one of the major factors that can drives the growth in both developing and developed economies (Oseni & Nwosa, 2011). Volatility, which is regularly used by investors as basic determinant of the total risk that they will face in financial assets and it is measured by the variance or standard deviation of the stock return (Brooks, 2008; Tsay, 2010). There is also a wide argument about the financial markets that usually plays a specific role in the growth of the economy and also development which encouraged by the capital accumulation for an efficient allocation of capital. So, share price volatility can harm the smoothness of financial system and negatively affected the economic growth and performance (Mala & Reddy, 2007; Merton & Bodie, 1995).

Share price of the company can be referred as the price that the stock is currently trading at in the stock market. Initially, the share prices determined from company's initial public offering (IPO), where the price will change whether increase or decrease according to the supply and demand of the company's stock. The price will increase when there is demand for the stock and vice versa, the price will decrease when the supply is higher than the demand of the stock. Company's share price also can be affected by other internal and external factors directly or indirectly. Economic factors such as interest rate policies and tax can crucially contribute to the changes of the market and perfectly influence the volatility. For example, the stock market will react forcefully when central bank set the interest rate in short-term for overnight borrowing rates.