MARA INSTITUTE OF TECHNOLOGY
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A STUDY ON THE RELATIONSHIP BETWEEN LEVERAGE AND BETA FOR THE COMPANIES LISTED UNDER CONSUMER PRODUCT SECTOR OF KUALA LUMPUR STOCK EXCHANGE COMPOSITE INDEX

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"SEGALA YANG BAIK DATANGNYA DARI ALLAH DAN YANG KURANG ADALAH DARI DIRI SENDIRI"

Abstract

This study attempt to examine the relationship between leverage and beta with particular reference to the companies listed under the consumer products sector of the KLSE Composite Index. Ten companies were included in the sample which covers the period of six consecutive years from 1988 to 1993.

Leverage is based on published accounting data while beta is taken from Permodalan Nasional Berhad. Leverage is represented by debt ratio, debt to equity ratio, and long term debt to total asset ratio. Riskiness of the company is represented by beta.

Using the regression and corelation analysis, two alternate hypothesis were developed. First, leverage is a significant explanatory variable for beta. Second, beta is dependent on leverage. In addition to the two statistical test, coefficient of determination and coefficient of correlation were used to quantify the relationship between the two variables.

From the study, empirical findings proved that there is no significant relationship between leverage and beta. The F-test shows that leverage is not significant in explaining the variation in beta. Similarly, the t-statistic test indicates that beta is independent of leverage. Coefficient of determinations show that leverage has no significant influence in beta variation although there exists a correlation between the two variables.

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CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

Capital is the firm's total assets and is composed of all tangible and intangible assets, including physical assets (such as land, buildings, equipment, and machinery) as well as assets that represent property rights (such as accounts receivable, notes, stocks, and bonds).[1]

[1] Pamela P. Peterson, "Financial Management And Analysis: International Edition," McGraw Hill. Pg. 346.