UNIVERSITI TEKNOLOGI MARA

RELATIONSHIP BETWEEN STOCK MARKET DEVELOPMENT AND ECONOMIC GROWTH: EVIDENCES FROM 4-ASIA COUNTRIES

MUHAMMAD ADAM BIN MOLKAN
2018226614

Final Year Project Paper submitted in fulfillment
of the requirements for the degree of
Bachelor of Business Administration
(Investment Management)

Faculty of Business and Management

July 2021

ABSTRACT

How any given country performs in its economic sector is usually measured by its growth as well as other external and internal factors. In this present study, the researcher deliberately focuses on the stock markets in ASEAN which are Malaysia, Indonesia, Singapore and Thailand by studying the connection between the country's economic growth and its market size, liquidity level of stock market and inflation in those countries by applying 20-year annual data from 2000 to 2019.The present study uses capitalization of stock market ratio as proxy capitalization ratio is used to measure market size, whilst "turnover of stock market" ratio and stock market value traded ratio are used as proxies for stock market liquidity level. Inflation is measured in the form of percentage. GDP per capita is used as proxy for economic growth. The outcome of the research found that market size, liquidity level of stock market namely stock value traded and stock market turnover generally do have a significant contribution to economic growth in those four countries.

Keywords: ASEAN, Stock Market Development, Economic Growth, Multiple Regression Model, Market Size, Liquidity level of stock market.

TABLE OF CONTENTS

ACKNOWLEDGEMENT

For the sake of this assignment, I have devoted all my energy to completing this project report. However, that would not have been possible without the support and help of a few individuals.

So first, Alhamdulillah thanks be to Allah Almighty, for giving him His grace, encouragement both physically and mentally, and a lot of patience on my way to completing this research. Without His blessing, it would have been impossible for me to complete this research report in the allotted time. A lot of things have been learned and therefore the information gained will be very valuable for my future.

In addition, I am very grateful to my research advisor, Ms. Nurul Haida Johan for her guidance in preparing this research report. Thank you for all your advice and care, as well as for providing the necessary details during this process. All the knowledge exchanged was very informative and beneficial to us.

Finally, I would like to express my deepest appreciation to the family members who have always given me unconditional love and encouragement. My thanks and respect go to the people who willingly helped me complete this research.

CHAPTER ONE

1.1 INTRODUCTION

Stocks are one of the instruments in the financial markets. Typically, when a company decides to finance their own expenses, issuing shares is one of the options chosen to generate income for them. The stock market is seen as the basis of the economy that drives effectiveness in the formation and allocation of capital. The stock market also permits governments and even industry to raise long-term capital to fund new projects, as well as expand and modernize industrial or commercial problems. The stock market is very significant from the point of view of investors and also from the point of view of the industry. A well -functioning stock market is seen as very important in terms of economic growth as it gives companies the ability to access capital quickly from the public. If a stock investment is considered profitable, many investors will purchase the stock and if this happens, then the stock price will rise. Conversely, if investors consider where the stock is less profitable, then they are able to avoid buying the stock. Therefore, this will cause the stock price to decline.

Several past studies have examined the connection between financial market growth and economic growth (Ang, 2009) (Alfaro, Chanda, Kalemli-Ozcan, & Sayek, 2004; Durham, 2004) and a large number of them recognize the importance and significance of financial market development in encouraging economic growth. Also, there is also evidence that more financially developed countries can avoid currency crises (Federici & Caprioli, 2009). Thus, financial markets are not only able to drive economic growth, but also able to help increase in terms of the level of expansion of certain financial markets to avoid the economy from crisis. This shows the strong role of financial markets in a country's economy.

To enable the measurement of a country's economic performance and activity to take place., Gross Domestic Product (GDP) is a metric that is usually used to calculate economic growth. GDP is very important in interpreting information on economic measures and conditions of economic performance of a country. The real GDP growth rate is also often used as an indicator of the general health of the economy. In general, an increase in real GDP is portrayed as a sign that the economy is doing well. The advantage that can be obtained by using GDP is to be able to standardize the procedures used in calculating GDP that will allow to see the influence of the stock market on the growth of the country.