THE DETERMINANTS OF DERIVATIVE USAGE: A STUDY ON MALAYSIAN NON-FINANCIAL FIRMS

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ABSTRACT

The objective of the study was to examine the determinants of derivative usage in Malaysian non-financial firms during a three year period from 2011 to 2013, and the data has been taken yearly. The sample data were derived from five variables such as debt, investment growth, managerial ownership, liquidity and profitability. The dependent variable is derivative usage and was indicated by using contract or notional amount used by the firms. Debt has been indicated by using two proxies which is leverage (LVG) and debt-to-equity ratio (DER) , investment growth was using capital expenditure ratio (CAPX) and dividend payout ratio (DPR) as proxy, managerial ownership was using number of shareholding (NOS), liquidity was indicated by using current ratio (CR) and quick ratio (QR) as its proxy and profitability was using return on asset (ROA) and return on equity (ROE) as proxy and these were the independent variables. The methods that will be used were multiple regressions and e-views. Based on the four conditional theories, the result showed that debt, investment growth, managerial ownership and liquidity has significant relationship with derivative usage.

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CHAPTER 1: INTRODUCTION

This chapter will discuss about the view of derivative usage among the financial services in Malaysia. The researcher also will discuss about the overview of study, problem statement, research questions, research objective, significance of study, scope of study, limitations of study and the definition of terms used in this study under this chapter.

1.1 **Overview of Derivative**

Market can be defined as a place where buyer and seller meet together to make a transaction. In a transaction usually the process of exchanging goods with cash will happen immediately. However, nowadays a transaction also can be done without the buyer and seller meet together in physical place and with immediate payment. The delivery of goods can be delayed, and the payment can be made at a later date. As an example, a business transaction in this modern financial trade can be done through internet. This can be seen when an Islamic bank buys commodity on behalf of their customer through internet. The commodity will be used as an underlying asset in order to make their financing facility according to the Shariah law.

In Malaysia, there are two types of financial market which is money market and capital market. Money market is divided into two which is marketable securities and foreign exchange. According to Investopedia (n.d), money market is defined as one of short-term market. It provides high liquidity to the participants. It has been divided into two types which is marketable securities and foreign exchange. Both of this type provides high liquidity to the participants since marketable securities involving trading short-term instruments such as bankers' acceptance, while foreign exchange involving trading of