INTERNATIONAL PRICE RELATIONSHIP BETWEEN MALAYSIAN STOCK EXCHANGE COMPOSITE INDEX WITH DOW JONES INDUSTRIAL AVERAGE, HANG SENG INDEX AND NIKKEI 225 AVERAGE INDEX

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Foremost,

In the name of ALLAH, The Beneficent, The Merciful,
Praise be to ALLAH, Lord of the Worlds, The Beneficent, The Merciful,
Owner of the Day of Judgment;
Thee (alone) we worship; Thee (alone) we ask for help,
Show us the straight path, The path of those whom Thou hast favoured;
Not (the path) of those who earn Thine anger
nor of those who go astray.

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ABSTRACT

This project paper is carried out with the criterion of providing readers better understanding in examining the linkages stock market by using the index in each selected country to represent the relationship towards Malaysia Stock Exchange (MSE). The objective of the study is to determine whether there are any relationships between Malaysia Stock Exchange Composite Index with Dow Jones Industrial Average, Nikkei 225 Average Index and Hang Seng Index. The daily data are collected from January 1995 to 2005 (10 years). Data collection will be analyzed and interpreted by using econometrics analysis. The data analysis in this study involved four steps which is stationarity test, ordinary least squares (OLS), diagnostic test and final model. The obtained result indicates that other markets such United States, Japan and Hong Kong markets are not highly influenced on Malaysia Stock Exchange.

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Securities industry in Malaysia started as early in late 19th Century as an extension of the British Corporate presence in the rubber and tin industries. It showed that that the early stages of securities industry in Malaysia assisted and influenced of natural resources of Malaysia. However, Malaysia Stock Exchange survived and went through a moderation in its own way as what we can see today. Nowadays, Malaysian Stock Exchange considered as one of the active capital market in the Asian region. Bull performance in 1993 had attached many new foreign and local investors.

According to definition of **Fama (1970)**, a market that always fully reflects the available information is called efficient. Under efficient market assumption, performance of the stock market can be influenced by information received and the reaction towards the information. The issue is an