THE RELATIONSHIP BETWEEN MONEY SUPPLY (M2), GROSS DOMESTIC PRODUCT (GDP), AND INFLATION RATE TOWARDS STOCK PRICE OF KUALA LUMPUR INDUSTRIAL PRODUCT INDEX

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Dear Sir,

SUBMISSION OF PROJECT PAPER (FIN 660)

Attached is the project paper title **"THE RELATIONSHIP BETWEEN MONEY SUPPLY (M2), GROSS DOMESTIC PRODUCT (GDP), AND INFLATION RATE TOWARDS STOCK PRICE OF KUALA LUMPUR INDUSTRIAL PRODUCT INDEX"** to fulfill the requirement as needed by the Faculty of Business Management, MARA University of Technology.

Thank You.

Yours faithfully,

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TABLE OF CONTENTS

CONTENTS   **PAGES**

ABSTRACT

This project paper is to identify the relationship between Money Supply (M2), Gross Domestic Product (GDP), and Inflation Rate towards stock price of Kuala Lumpur Industrial Product Index .This project paper is also to determine which of the economic indicators (Money Supply-M2, Gross Domestic Product, and Inflation Rate) that are significant towards stock price of Kuala Lumpur Industrial Product Index. These three variables are parts of economic indicators always used by the researcher to identify the relationship of stock price performance reflected by the level of economy activities. The dependent variable is the Kuala Lumpur Industrial Product Index (IPI) and the independent variables consist of Money Supply (M2), Gross Domestic Product (GDP), and Inflation Rate. The study focuses on the economic indicators that have been recorded 6 years from January 1998 until December 2003 toward the Kuala Lumpur Industrial Product Index in the Main Board of Bursa Malaysia. This research uses the Multiple Linear Regression Analysis and Correlation Analysis in finding out the significant relationship between dependent variable and independent variables. From the finding, it has been concluded that Money Supply (M2) has no significant relationship, Gross Domestic Product (GDP) has significant relationship, and Inflation Rate has no significant relationship towards Kuala Lumpur Industrial Product Index (IPI).

1.0 INTRODUCTION

1.1 BACKGROUND OF STUDY

1.1.1 Background of Kuala Lumpur Stock Exchange (Bursa Malaysia)

The first formal securities business organization in Malaysia was the Singapore Stockbrokers' Association, established in 1930. It was re-registered as the Malayan Stockbrokers' Association in 1937. In 1960, our predecessor, the Malayan Stock Exchange was established and the public trading of shares commenced in Malaya. The board system with trading rooms in Singapore and Kuala Lumpur, linked by direct telephone lines into a single market with the same shares listed at a single set of prices on both boards, was established in 1961.

In 1964, the Stock Exchange of Malaysia was established. With the secession of Singapore from Malaysia in 1965, the Stock Exchange of Malaysia became known as the Stock Exchange of Malaysia and Singapore. In 1973, currency interchangeability between Malaysia and Singapore ceased, and the Stock Exchange of Malaysia and Singapore was divided into KLSEB and SES. The Kuala Lumpur Stock Exchange which was incorporated on December 14, 1976 as a company limited by guarantee took over the operations of KLSEB in the same year.