



THE IMPACT OF MACROECONOMIC VARIABLES  
TOWARDS THE ISLAMIC STOCK MARKET  
IN MALAYSIA

SITI RAHIMAH BINTI ABDU RAJI  
2014116711

BACHELOR OF BUSINESS ADMINISTRATION  
WITH HONOURS (FINANCE)  
FACULTY OF BUSINESS MANAGEMENT  
UNIVERSITI TEKNOLOGI MARA  
KOTA KINABALU

JANUARY 2017

**DECLARATION OF ORIGINAL WORK**



**BACHELOR OF BUSINESS ADMINISTRATION  
WITH HONOURS (FINANCE)  
FACULTY OF BUSINESS MANAGEMENT  
UNIVERSITI TEKNOLOGI MARA  
“DECLARATION OF ORIGINAL WORK”**

**I, Siti Rahimah binti Abdu Raji, 931115-12-5432**

Hereby, declare that:

- This work has not previously been accepted in substance for any degree, locally or overseas, and is not being concurrently submitted for this degree or any other degrees.
- This project-paper is the result of my independent work and investigation, except where otherwise stated.
- All verbatim extracts have been distinguished by quotation marks and sources of my information have been specifically acknowledged.

Signature: \_\_\_\_\_

*Siti Rahimah binti Abdu Raji*

Date: \_\_\_\_\_

*12/1/2017*

## TABLE OF CONTENTS

	Page
TITLE PAGE	i
DECLARATION OF ORIGINAL WORK	ii
LETTER OF SUBMISSION	iii
ACKNOWLEDGEMENT	iv
TABLE OF CONTENTS	v
LIST OF FIGURES	viii
LIST OF TABLES	viii
LIST OF ABBREVIATIONS	ix
ABSTRACT	x
Chapter 1 Overview of the Study	
1.0 Introduction	1
1.1 Research Background	2
1.1.1 Practices of Islamic Finance	2
1.1.2 Stock Markets in Malaysia	3
1.1.3 Macroeconomic Variables	5
1.2 Problem Statement	7
1.3 Objectives of the Study	9
1.4 Significance of the Study	10
1.5 Scope and Limitations of the Study	12
1.6 Organizations of the Study	14
Chapter 2 Literature Review	
2.0 Introduction	15
2.1 Review of the Literature	16
2.1.1 Islamic Stock Market Price Index	16
2.1.2 Consumer Price Index	17
2.1.3 Industrial Production Index	18
2.1.4 Aggregate Money Supply	19
2.1.5 Exchange Rate of MYR/USD	20
2.1.6 Interest Rates	21
2.2 Review of Related Theories	23
2.2.1 The Arbitrage Pricing Theory	23

## LIST OF FIGURES

FIGURES		PAGE
3.5	Empirical Model	31
3.6	Conceptual Framework	32
3.8	Estimation Procedure	34

## LIST OF TABLES

TABLES		PAGE
4.1	Descriptive Statistics – Common Sample	40
4.2.1	Normality Test	41
4.2.2	Unit Root Test	42
4.3.1	Johansen co-integration Test (Trace)	44
4.3.2	Johansen co-integration Test (Max-Eigen)	44
4.4	VEC Granger Causality / Block Exogeneity Wald Test Results	46
4.6	Ordinary Least Square Regressions Results	51
4.7.1	Variance Inflation Factor (VIF) Test Results	54
4.7.2	BGLM Test Results	55
4.7.3	White Test Results	56
5.1.1	Summary of Long-run Relationships	60
5.1.2	Summary of Short-run Relationships	60
5.1.3	Summary of Pairwise Granger Causality Relationships	61
5.1.4	Summary of Ordinary Least Square (OLS)	62

## ABSTRACT

*Many studies have been conducted in determining the variables that could influence the stock market. Few literatures are considering the relationships between returns in Islamic stock market in regional level, which in this case, Malaysia with the macroeconomic variables. The relationships of the variables are to be observed by using the Ordinary Least Square (OLS) method. The current study is reinvestigating the relationship and the determinant of dominant variables towards the returns of stocks traded in Malaysian Islamic stock market which is known as FTSE Bursa Malaysia EMAS Shariah Index (FBEMS). The examined period is post global crisis in 2007 which is between 2010 until 2015 as according to the availability of data. For diagnostic checking, there are no multicollinearity and heteroscedasticity problem although there is an autocorrelation problem. The findings showed that M3 and LTR are both significantly positive towards PI while CPI and XR are negatively related. It is also shown that IPI and STR are insignificant towards the return of the Islamic market. Moreover, it shows only CPI, M3 and STR Granger cause for PI in a unidirectional causality relationships while XR is in bidirectional relationships towards PI.*