



اَوْنَبُورْ سَيِّبِي تِيكْبُولُو كِي مَبَارَا
UNIVERSITI TEKNOLOGI MARA
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**THE RELATIONSHIPS BETWEEN
MANAGED FLOATING EXCHANGE RATE WITH
KUALA LUMPUR COMPOSITE INDEX (KLCI)
AND SECOND BOARD INDEX**

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ABSTRACT

This project paper is conducted in order to answer the question whether the managed floating exchange rate has relationship with Kuala Lumpur Composite Index and Second Board Index. The study focuses on economic growth that has been recorded after the Malaysian Government depegs the ringgit and moved to a managed float system which is from July 2005 to December 2006. The data has been collected on daily basis for 379 days from Bursa Malaysia. Here, exchange rate (RM per US Dollar) is considered as dependent variable and Kuala Lumpur Composite Index and Second Board Index (closing price) are considered as independent variables. As a main interest of this study is to determine significance relationship between exchange rate with Kuala Lumpur Composite Index and Second Board Index, the multiple regression analysis is used. Based on the analysis that has been done, it is clearly shows that the exchange rate has significant relationship with Kuala Lumpur Composite Index and Second Board Index. As a result, Kuala Lumpur Composite Index and Second Board Index have a negative relationship with exchange rate. Upon completing this study, several recommendations are given based on the findings and analysis of the study in order to make the study more understandable and more significant.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The issue of whether stock prices and exchange rates are related or not have received considerable attention after the East Asian financial crises. During the crises the affected countries saw turmoil in both currency and stock markets. If stock prices and exchange rates are related and the causation runs from exchange rates to stock prices, then crises in the stock markets can be prevented by controlling the exchange rates. Moreover, developing countries can exploit such a link to attract or stimulate foreign portfolio investment in their own countries. Similarly, if the causation runs from stock prices to exchange rates, then authorities can focus on domestic economic policies to stabilize the stock market. If the two markets or prices are related then investors can use this information to predict the performance of one market using the information on another market.

1.1.1 Overview of Exchange Rates

The exchange rate is the rate at which one currency is exchanged for another currency. For example, if the exchange rate between Ringgit Malaysia and U.S. dollar is RM3.80 per dollar, it takes a Malaysian buyer \$380,000 to buy a USD100,000 Jaguar. Exchange rates are important to