THE RELATIONSHIP BETWEEN MACROECONOMIC VARIABLES AND STOCK PRICES: EVIDENCE FROM MALAYSIA

INTAN SAFURA BINTI JILANI
2006851316

Submitted in Partial Fulfillment of the Requirement for the Bachelor of Business Administration (Hons) Finance

FACULTY OF BUSINESS MANAGEMENT
MARA UNIVERSITY OF TECHNOLOGY
JOHOR

MAY 2008

ACKNOWLEDGEMENT

Without everyone continued support, this study would not been the same as presented here.

Thank you.

TABLE OF CONTENTS

ABSTRACT

The purpose of this study was to empirically examine the relationship between macroeconomic variables money supply (M2), inflation rate (CPI), exchange rate as well as interest rates and stock prices in Malaysia. Thus, the main objective of this study was to determine the relationship of each variable which have been influencing the stock price performance especially in the Malaysian Stock Market. The period of analysis is covered from January 1997 to December 2006 in monthly basis. The regression method that has been used is Multiple Linear Regression. The four dependent variables that be used as a proxy of stock prices were Kuala Lumpur Composite Index (KLCI), Consumer Products Index, Finance Index, and Property Index, whereas the independent variables were the four macroeconomic variables.

According to the analysis of multiple linear regressions from the year 1997 to 2006, it is found that macroeconomic variables as Consumer Price Index (CPI), T-Bills interest rate, money supply M2 and exchange rate are significant contributors to the performance of KL Composite Index, Property Index and Finance Index. However, for the Consumer Products Index only T-Bills interest rate, money supply M2 and exchange rate are significant contributors to the performance of the index except CPI which was not significant.