



**ARBITRAGE PRICING THEORY AND THE CAPITAL ASSET PRICING MODEL
- EVIDENCE FROM THE MALAYSIAN STOCK MARKET**

**MOHD KHAIRUL IZHAR BIN ZOLKEFLEY
2006849824**

**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

All praises to almighty ALLAH, the most merciful and the most benevolent for giving me the opportunities in completing this research paper. It would be impossible for me to spent time to complete this study without the grace and help of ALLAH S.W.T.

I am greatly indebted to En. Syamsyul bin Samsudin whose excellence in supervision and plays a big role in inspiring my work. Without his untiring encouragement, suggestions, ideas and comments throughout this study, this research could not be completed.

I also would like to convey my deepest gratitude and indebted to Associate Professor Dr. Omar Samat, Associate Professor Zin Ibrahim and En. Muhamad Sukor bin Jaafar for their valuable advises, suggestions and guidance and also for their time and effort in ensuring the progression of this research.

I dedicate this research to my beloved parents and for their endless support and understanding and also to the rest of my families for their help and encouragement. Beyond a simple thank you, I want them to know that I really appreciate what they had done for me.

I wish to express my deepest gratitude to all my friends, who shared their valuable experience, time and commitment. Without their patience, this study cannot be completed.

Last but not least, I would like to thank to everyone that involved directly or indirectly for their contribution, invaluable support and encouragement they have place on me. Without everyone's continuing support, this study would not been the same as presented here.

Thank you.

TABLE OF CONTENTS

	Page
TITLE PAGE	i
DECLARATION OF ORIGINAL WORK	iii
LETTER OF TRANSMITTAL	iv
ACKNOWLEDGEMENT	v
TABLE OF CONTENTS	vii
LIST OF TABLE	ix
LIST OF ABBREVIATIONS	x
ABSTRACT	xii
CHAPTER 1 – INTRODUCTION	
1.0 Background of Capital Asset Pricing Model and Arbitrage Pricing Theory	1
1.0.1 Capital Asset Pricing Model (CAPM)	1
1.0.2 Arbitrage Pricing Theory (APT)	2
1.0.3 Relationship of APT with the CAPM	3
1.1 Problem Statement	4
1.2 Objective of Study	5
1.3 Research Questions	5
1.4 Significant of Study	6
1.5 Scope of Study	6
1.6 Limitation of Study	7
1.7 Definition of Terms	8

ABSTRACT

The Arbitrage Pricing Theory (APT) had been proposed as an alternative model to the Capital Asset Pricing Model (CAPM) that could predict the expected return of securities. This research had used the monthly returns of ninety one securities listed on Bursa Malaysia from year 1998-2007 by using the APT and CAPM to seek which model could predict the unpredictable expected returns of securities and which model provide better estimation to the actual returns. The method will be used both equations from the models to find the securities expected returns. Data will be process by using Microsoft Excel and the Statistical Package for Social Science (SPSS).

Empirical result indicates that both Capital Asset Pricing Model and Arbitrage Pricing Theory could predict the unpredictable expected returns of securities and Capital Asset Pricing Model provide better estimation to the actual returns of the securities.