FACTOR INFLUENCING YIELDS OF MALAYSIAN GOVERNMENT BOND

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SEGAMAT, JOHOR

JUNE 2015

ACKNOWLEDGEMENT

First and foremost, I would like to express my sincere gratitude to my advisor Mdm Aflah binti Isa for the continuous support of my Degree study and research, for her patience, motivation, enthusiasm, and immense knowledge. Her guidance helped me in all the time of research and writing of this thesis. I could not have imagined having a better advisor and mentor for my degree study. Besides my advisor, I would like to thank Mr Syamsul Samsuddin for his encouragement and insightful comments along the complement of my degree thesis paper. Last but not the least, I would like to thank my family especially my parents for giving birth to me at the first place and for the unwavering moral, emotional and financial support. Above all, utmost appreciation to the Almighty Allah SWT for the divine intervention in completing this thesis paper, Alhamdulillah.

ABSTRACT

This paper aims to examine the relationship between macroeconomic variables with government bond yields by using quarterly data from 2004 to 2014 and have total 44 observations in this paper. There are four variables that have been chosen as independent variables in this study which are Federal Government Budget Deficit, Government Debt, Consumer price Index (CPI) and Interest Rate (IR). To run the model and estimate the regression the Ordinary Least Square (OLS) method was used. Besides that, this paper also encounter that there is no serious multicollinearity problem, no autocorrelation, no heteroscedasticity, error term is normally distributed and model is correctly specified. Mathematically, a bond spread is the simple subtraction of one bond yields from another. Traders use yield spreads as their benchmark to valuing bonds. Most traders have computer trading systems, such as Bloomberg and PC Bond which allow them to quickly calculate historical and actual spreads between many different bonds. Moreover, as this study is on the yields spreads of Malaysian bond, it can be the guideline to the existing as well as the potential investor to make a good investment decision in the future.