



A DYNAMIC CAUSALITY OF OIL PRICES AND ECONOMIC  
INDICATORS ON STOCK RETURNS

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## TABLE OF CONTENT

LIST	PAGE
TITLE PAGE	i
DECLARATION OF ORIGINAL WORK	ii
LETTER OF SUBMISSION	iii
USE OF THESIS	iv
TABLE OF CONTENT	v
LIST OF TABLES	vii
LIST OF FIGURES	viii
LISY OF ABBREVIATIONS	viii
ABSTRACT	ix
ACKNOWLEDGEMENT	x
CHAPTER 1 : INTRODUCTION	
1.0 INTRODUCTION	1
1.1 BACKGROUND OF STUDY	3
1.1.1 OVERVIEW OF OIL PRICE	3
1.1.2 OVERVIEW OF INFLATION	4
1.1.3 OVERVIEW OF EXCHANGE RATE	4
1.1.4 MALAYSIAN STOCK MARKET	4
1.2 PROBLEM STATEMENT	6
1.3 OBJECTIVE OF STUDY	6
1.4 SCOPE OF STUDY	6
1.5 THEORITICAL FRAMEWORK	7
1.6 LIMITATION OF STUDY	7
1.7 SIGNIFICANCE OF STUDY	9

<b>CHAPTER 2 : LITERATURE REVIEW</b>	
2.0 INTRODUCTION	10
2.1 BRIEF REVIEW OF EXISTING LITERATURE	10
<b>CHAPTER 3 : DATA AND METHODOLOGY</b>	
3.0 INTRODUCTION	15
3.1 DATA COLLECTION METHOD	15
3.2 DATA ANALYSIS AND HYPOTHESIS TESTING	16
3.2.1 EMPIRICAL MODEL	16
3.2.2 HYPOTHESIS	16
3.3 RESEARCH METHODOLOGY FLOW CHART	18
<b>CHAPTER 4 : FINDING AND ANALYSIS</b>	
4.0 INTRODUCTION	19
4.1 DESCRIPTIVE STATISTIC	19
4.2 MULTIPLE LINEAR REGRESSIONS	20
4.3 UNIT ROOT TEST	21
4.4 VARIANCE INFLATION FACTOR (VIF) TEST	21
4.5 BREUSCH-GODFREY LM TEST	23
4.6 JOHANSEN COINTERGRATION TEST	23
4.7 GRANGER CAUSALITY TEST	26
<b>CHAPTER 5 : CONCLUSION AND RECOMMENDATION</b>	
5.0 INTRODUCTION	28
5.1 CONCLUSION	28
5.2 RECOMMENDATION	29
<b>REFERENCES</b>	30
<b>APENDIX</b>	32

## ABSTRACT

This study examined the relationship between oil prices and the stock market prices (KLCI) in Malaysia and considered exchange rate and interest rate as the additional determinants. Monthly data of oil prices, interest rates, exchange rates between MYR and USD as well as stock market indices were modeled into a multiple regression model. Granger causality test was utilized to test whether there was any causal linkage between stock prices and macroeconomic variables. Six hypotheses were developed to test the relationship between the macroeconomic variables and the performance of the KLCI stock market. The data stretching from 1994 until 2012 were collected from Bloomberg Database. The data were analyzed by using the Multiple Linear Regression test, Johansen Cointegration Test and Granger-causality test to accommodate the research objectives. The objectives of this paper are (i) To examine the causal relationship between the macroeconomic variables towards the stock market price. (ii) To determine whether the oil price, inflation and exchange rate can affect the stock market price. (iii) To evaluate whether the oil price, exchange rate and inflation can explain the movement of stock market price. The general findings suggest that, there are evidences of bilateral relationship between share prices with two important independent variables namely inflation and exchange rate.

Keywords: Granger Causality, Multiple Regression Model, KLCI Stock Prices, crude oil price, inflation rate, exchange rate



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