THE DETERMINANTS OF MACROECONOMIC VARIABLES TOWARDS STOCK MARKET RETURN: CASE IN CHINA

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ABSTRACT

This paper examine the relationship between several macroeconomic variables (Exchange Rate, Money Supply and Industrial production) and Shanghai Stock Exchange Composite Index from year 2007 until year 2014 which is the data was examined based on quarterly data. This paper employs ADF statistic to examine the relationship and the result shows there are relationship between dependent and independent variables. In this paper, data are not normally distributed, so the data cannot be used by the other countries and study is free from autocorrelation problem. The result of this study also indicates that only money supply have significant impact on stock market.

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CHAPTER 1: INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Macroeconomic is an understanding about overall economy's performance for a country. As what been mentioned by economist, it is a situation to study the performance of a country on how they achieve high growth and consumption for a year. Usually, macroeconomic explained the economic performance and development as well as to compare it with the other countries. An economist will investigate all the variables related to their study and find out why the economies of some developing countries tend to grow slower than developed countries. As we all know, economies does not always grow stable and sometimes the economies might be facing with a difficult situation and slowdown expansion.

Now, it is too difficult to ignore the importance of stock market return which will concern about country's economy activities. This is because of the effects of macroeconomic variables on stock price will help the economist to evaluate the condition and development of the countries. Thus, this paper aims to study the relationship between macroeconomic variables and Shanghai Stock Exchange (SSE) Composite Index, in China. As what has been mentioned by Hosseini & Ahmad (2011), even though there are a number of empirical studies on the effect of macroeconomic variables towards stock market, most of the researchers typically will focused on less developed Asian countries such as Iran, Indonesia, Singapore and China.