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FACTORS BEHIND THE CHANGES OF MALAYSIAN STOCK PRICE VOLATILITY

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ABSTRACT

The Malaysian stock market is a typical emerging market with special features that are very different from those of mature markets. The objective of this study is to investigate whether and how these features affect the volatility-volume relation for Malaysian stocks. This paper examines the roles of money supply (M2), Consumer Price Index (CPI), Industrial Production (IP), and interest rate (IR) from January 2001 until January 2015 in explaining the volatility-volume relation in the Kuala Lumpur Composite Index. These variables contain monthly data of 169 samples of observation. The aim of this paper is to determine which variables are the most significant in influencing the stock market. The findings reveal that among four of the independent variables, only three variables which are Consumer Price index, interest rate and industrial production are significant with dependent variables (KLCI). In addition, Consumer Price Index, and interest rate have negative relationship with stock price. However, positive relationship is shown between Industrial Production and stock price. The most significant variable is Interest Rate compare to Consumer Price Index and Industrial Production. The results may have important implications for work explaining the volatility-volume relation on the Malaysian stock market, further providing a reference by which to regulate emerging markets. This study also pointed out several conclusions and recommendations for future research.

Keywords: Kuala Lumpur Composite Index (KLCI), Money Supply (M2), Consumer Price Index (CPI), Interest Rate (IR), Industrial Production (IP).

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