CORPORATE FINANCE AND MACROECONOMICS VARIABLES ON MALAYSIA STOCK MARKET (KLCI): A PANEL DATA ANALYSIS

HAZWANI BINTI RAZAK

2010152653

BACHELOR OF BUSINESS ADMINISTRATION (HONS) FINANCE

FACULTY OF BUSINESS MANAGEMENT

UNIVERSITI TEKNOLOGI MARA (TERENGGANU)

JANUARY 2013

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ACKNOWLEDGEMENT

All praise is for Allah (SWT) and may His blessings, peace and favors descend in perpetuity on our beloved Prophet Muhammad al-Mustafa (SAW) who is mercy for all the worlds. Alhamdulillah, in the name of Allah; the Beneficent, the Merciful who for His Love and Compassion I got to start and finish up this research in the first place.

Foremost, I would like to express my sincere gratitude to my beloved advisor Prof Dr Wan Mansor bin Wan Mahmood for my Degreee study and research, for his patience, motivation, enthusiasm, and immense knowledge. His 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 study.

Besides my advisor, I would like to thank to Madam Nabilah binti Shukor who had been so chivalrous in examining my paper. Every assistance, encouragement, insightful comments and guidance is well appreciated. Besides that, I thank to all my lecturers for their cooperation and help throughout the duration of this research study as well as colleagues and UiTM librarian and lab for their guidance during collecting materials and data analysis software in effort to finish up my research study on time.

Last but not the least; I would like to thank my family: my parents

, for giving birth to me at the first place and supporting me spiritually throughout my life.

CHAPTER 1

INTRODUCTION

1.1 BACKGROUND OF STUDY

The stock market has become indispensable market in economic opulence to accelerate the economic growth as they ensure the stream of resources would be the most productive by providing domestic savings and increasing the quality and quantity of investment opportunities (Al-Shubiri, 2010). In Wikipedia (2012), stock market is a public entity of a company for trading shares and it derived at an agreed price on stock exchange that only traded privately. The examples of stock exchange are London Stock Exchange, New York Stock Exchange (NYSE), Bombay Stock Exchange, Hong Kong Stock Exchange, and Kuala Lumpur Stock Exchange (KLSE).

Corporate finance and economic activity will influence the development of stock market. Besides that, the rapid developments in the market will lead to the mechanism of liquidity stock market-growth. Investment will less risky and more attractive when the equity market is liquidity in order to sell the equity quickly and cheaply for their savings and the investors will confidence in market. The more participant in the market, the more liquidity market will exist (Riman et al., 2008).

According to Lee et al., (2001), the previous researchers keen to examine the short-run and long-run dynamic relationships between the Malaysia stock market and macroeconomic variables.It same case as Ross (1976), she use an arbitrage pricing theory (APT) model by Sharpe to measure the return of stock in US market and use the macroeconomic variables where she find positive relation of changes in term structure, changes in risk premium and industrial production while inflation rate is vice versa.

Stock market is highly volatile market and they have many factors the changes of share price whereas company fundamental factors might influence the stock prices such as performance of the company, board of director exchange and formation of new asset, dividends, and earnings. Meanwhile, for external factors might be macroeconomic volatility like Gross Domestic Product (GDP), inflation rate, exchange rate, interest rate and money supply. Moreover, investor behavior or market participant's behavior and environmental circumstances like strikes might be affected (Al- Tamimi ,2007).

Furthermore, stock market development normally measured by stock market size, volatility, liquidity, integration with capital market, concentration and the legal rules and regulation on the market which is called as a multi-dimensional concept (Garcia & Liu, 1999). This paper reflects how stock price is determined by considering the effect of different factors whether internal and economic factors have impact on stock pricing.

Malaysia Stock Market (KLCI) from 1997 until 2012 reached high of 1654 in September 2012 and low record of 89 in April 1977. KLCI is a major stock market which traces the large companies' performances (Trading Economic) (Wikipedia, 2012). Stock prices would be change on daily basis in stock market and can be determined by supply and demand as it is easy to expect the stock price may appreciate every morning and it would be change in many times in one day for some stocks.

During late 20th century, Malaysia industry sector have experienced an economic boom and known as rapid pace or aggressive development (Economy Watch Content, 2010).The services sector is the main contributor to the economy where he Government has targeted projecting the sector's share (inclusive of Government services) of GDP at 67.3% by 2020 where services sector will be the main driver of future growth for production and export of others goods and services. Furthermore, services percolate our routine life and it is very important to complement the manufacturing sector such as