UNIVERSITI TEKNOLOGI MARA

MACROECONOMIC DETERMINANTS OF STOCK MARKETS PERFORMANCE: EVIDENCE FROM ASIAN PACIFIC STOCK MARKETS

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ABSTRACT

This paper is aims to examine the relationship between macroeconomics variables and stock performances. This study will focus the panel data of five selected Asian Pacific stock markets which are China, Japan, Malaysia, India and South Korea. The dependent variable is stock index and the independent variables are money supply (m2), interest rate and exchange rate. The data from the sample taken are pooled for 16 years (2000-2016) across of five selected of country in Asian Pacific. The data was obtained from the DataStream and World Bank Databank. This research used quantitative secondary data and the researcher employs the panel data analysis approach using pooled OLS method. The panel data methodology is used in situations where there are data observed in quarterly period where are there are about 340 observations. The research finds that money supply and interest rate affects positively to the stock market. Meanwhile exchange rate affects negatively and significant relationship to the stock market.

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CHAPTER ONE
INTRODUCTION

1.1 BACKGROUND OF STUDY

The financial markets play important parts on the efficient and stabilization of the economy. In the literature reviews, it's well documented the relationship between the stock performances and the macroeconomic variables. Even though, there are many factors that can affect the stock performance but this research is focused on the macroeconomics variable that affects the stock performances of the Asian Pacific countries that based on the efficient market hypothesis theory. In chapter one, dependent and independent variables of the research will be discussed. The dependent variable or criterion variable of this research is stock markets index. Meanwhile, this research takes into the consideration of money supply, interest rate and exchange rate as the independent variables or predictor variables of the research.

Efficient market hypothesis states that stock market efficiency causes the existing shares prices always incorporate and reflect all relevant information. It is an idea that generated on 1960s by Eugene Fama. According to efficient market hypothesis, the investors are engaging with the chances and not the skills and the prices always reflect all information. According to Degutis (2014), efficient market hypothesis explain the situation of the trading in the stock market, because information and trade execution are becoming more faster.

Stock markets play important roles in supporting the growth of the economy and industry of the country and acts as tools to reflect the performance of the industry and economy of the country. The stocks performances growth can be looked at the stocks markets index. Moreover, the roles of the stock market are play as mediator between savers and borrowers. It transfers the saving from the large pool of small savers to become funds to the company to makes an investment (Issahaku, Ustarz, & Domanban, 2013).