UNIVERSITI TEKNOLOGI MARA

THE MACROECONOMIC FACTORS THAT INFLUENCE STOCK PRICE VOLATILITY: EVIDENCE FROM CONSTITUENTS OF FTSE BURSA MALAYSIA KLCI

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Thesis submitted in fulfillment
Of the requirements for the degree of
Bachelor of Business Administration
(Hons) (Finance)

Faculty of Business and Management

June 2017

ABSTRACT

This research studies about the macroeconomic factors that influencing stock price volatility. Stock price volatility can be defined as uncertain movements of share price due to several factors such as government control and regulation, foreign competition and the state of economy. However, this study only focused on state of economy that can be measured by selected macroeconomics factors. The factors examined in this study include gross domestic product (GDP), consumer price index (CPI), money supply (MS) and Interest Rate (IR). In broad, this study use time series data of period of year from 2000 until 2015 of selected macroeconomic factors had been used to measure the data.

Keywords: KLCI Index Price, Gross Domestic Product, Consumer Price Index, Money Supply, Interest Rate

ACKNOWLEDGEMENT

Alhamdulillah, a deep gratitude bestowed to Allah S.W.T. for His Almighty consent granted the strength, willpower and bless despite all the obstacles I have to face in the course of making this project paper become reality.

Million thanks and sincere appreciation goes to my advisor, Wan Mohd Farid Wan Zakaria for his support, encouragement, advices, understanding and guidance towards the progression in completing this project paper throughout the semester. Only Allah S.W.T can repay his for teaching me all this time with the knowledge that is very useful and helpful. I would also like to express my deepest appreciation towards my second advisor, Cik Sharazad Binti Harris for her immense guidance from the very start of my research proposal culminating to the completion of this final research.

In addition, this eternal gratitude goes to my family for their endless understanding, tolerance, support and encouragement. Not to forget, my countless appreciation goes to fellow friends for sharing all the experiences, technical assistance, ideas, support and encouragement in making this report reality. For those whose names were not mentioned above, big thanks, without your support it is difficult to finish this research project. Last but not least, I would like to thank everyone who have supported, helped and worked together directly or indirectly in assisting me realizing this research on time, the cooperation given is well appreciated and will always be remembered.
Thank you.

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INTRODUCTION

1.1 INTRODUCTION

Global financial crisis in 2007 caused unprecedented upheavals in the global stock market and because of that it has shaken all investor's confidence due to the volatilities in stock price. According to Olsen (2012), positive or negative influence is associated with a global "feeling" of things as good or bad. The volatile in market may cause an investors lose confidence in the market and shot up borrowing costs. This is because, before the global financial crisis happens, stock market is one of the investment trends that investors kept a constant eye on falling and rising price of shares as it will give a significant return to the investors who are active participated in investment. This can be proven by one of the source of finance is investment in shares for fulling firm requirement such as diversification and expansion (Sharif, Purohit, & Pillai, 2015).

Generally, an investors are allow to use more than one instruments to better satisfy their risk preferences and liquidity in stock `market, thus, encouraging their providing the non-financial corporations with equity finance possibilities and also their saving (Tsoukalas, 2009). A significant effect on the financial market will result in high volatility of stock prices and investigating the factors of the high volatility of stock price. It is generally accepted phenomenon that the volatility in the investment make investors are risk averse because it is measure the risk intensity that they bear. However, the investors should have awareness and knowledge about the determinants of share price in order to make a good investment decision (Singhania, 2013).