



**MACROECONOMIC AND THE MALAYSIAN EQUITY MARKET**

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## ABSTRACT

Kuala Lumpur Composite Index (KLCI) is a contract traded on Bursa Malaysia Derivatives Market. It is one of the alternative trading instruments. It is to ensure that the measure remains strong in the national economy with growing relation to global economy. This study is to investigate the relationship between Kuala Lumpur Composite Index and selected macroeconomic variable such as money supply, real output, exchange rate and price level. The time series data will be used for this study which based on monthly from year 2003 until 2008. The analysis of the data will be done by using E-view software. Time series econometric techniques of Ordinary Least Square regression will be used to study on the relationship between KLCI and selected macroeconomic variables.

It is expected that the most of the data findings on the variables are going to be significant. This is based on previous study made by many researches that found the findings are significantly related between dependent and independent variables.

## **CHAPTER 1: INTRODUCTION**

### **1.0 HISTORY OF KUALA LUMPUR COMPOSITE INDEX (KLCI)**

KLCI is stand for Kuala Lumpur Composite Index was being introduced on 4 April 1986 with the base value of 100. In 2004, Kuala Lumpur Stock Exchange was renamed as Bursa Malaysia Berhad. By making themselves more market oriented and customer driven, they enhance the competitive position and respond to the global trends in the exchange sector. In Bursa Malaysia consist of a main board, a second board and MESDAQ. In 2006, Bursa Malaysia being partnered with the FTSE to provide suite of indices to enhanced the KLCI. In 2009, FTSE Bursa Malaysia KLCI is one of indices that has been created to replace the KLCI. After that, FTSE Bursa Malaysia KLCI values has been adopted by Bursa Malaysia as its main index.

FTSE Bursa Malaysia KLCI (FBM KLCI) is a capitalization weighted stock market index that composed of the 30 largest companies on the Bursa Malaysia that their market capitalization have meet the eligibility requirements that required by FTSE Bursa Malaysia Index Ground Rules. This index is operated by both FTSE and Bursa Malaysia. FTSE Bursa Malaysia Index is a comprehensive range of real time index that cover all eligible companies listed on the Bursa Malaysia Main Board to measure the performance of Malaysian market's capital segments.

The index will represent the stock market performance to provide benchmark that will reflect the growth of Malaysian economy. In reality, the