



UNIVERSITI TEKNOLOGI MARA

**EFFECT OF MACROECONOMIC ON
STOCK MARKET DURING
PANDEMIC**

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ABSTRACT

The aim of the study is to explore the relationship during pandemic among selected macroeconomic variables and Malaysia stock market index which is known as Kuala Lumpur Composite Index (KLCI). The stock market and selected macroeconomic variables such as gross domestic product, inflation rate, exchange rate, interest rate and industrial production are taken as independent variables as well as pandemic that taken as dummy variable while stock market is taken as dependent variable. To capture the maximum variation in stock market, time series analysis is done on monthly data from year 2002 to 2020. The pandemic event is only focus happened in Malaysia which is severe acute respiratory syndrome (SARS), influenza a virus subtype (H1N1), Middle East Respiratory Syndrome (MERS), Coronavirus disease 2019 (COVID-19). Normality test is employed to test the normality of data. Correlation among the variables tested by correlation test. Then the significance of the explanatory variable is examined within the F-Test framework. Finally, Multiple Linear Regression used to explore the statistical relationship and evaluate the hypothesis in this paper.

Key words: stock market, Kuala Lumpur composite index, gross domestic product, inflation rate, exchange rate, interest rate and industrial production, pandemic

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

This study is to investigate and identify the selected macroeconomic and the Malaysian stock market index. The Kuala Lumpur Composite Index (KLCI) is selected as main observation. Meanwhile the selected macroeconomic is gross domestic product, interest rate, exchange rate, inflation and industrial production. In this chapter, it will focused on background of the study, problem statement, research question, research objective, significant of the study, and scope of study.

1.2 Background of the Study

The stock market is an economic entity that enables economic subjects to sell and acquire assets depending on demand and supply. It is a group of networks systems that facilitates the buying and selling of securities, the attraction of new capital via new security issuance, the conversion of real assets to financial assets, and the investment of money for short-term or long-term profit (Er, 2012). Therefore, a stock market serves a range of functional in the economy. A rising stock market indicates that the economy is expanding, and the industrial sector is growing (Hamidi, Khalid, & Karim, 2018). Additionally, a healthy stock market may attract both local and international investors, increase in financial growth for the country. Since strong economic growth, as defined primarily by company success as measured by good financial performance, will be mirrored in the stock market as investor confidence, so bringing more capital or investment funds into the economy (Md Isa, Ismail, A Latif, Abd Rahman, & Mazhan, 2019).

The stock market in Malaysia is often referred to as the FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBM KLCI) or (KLCI). The KLCI is the primary index that investors use to gauge the stock market's overall performance (Ahmad, Zaki, Juhari, & Jaffar, 2014). Malaysia's stock market index is composed of the 30 largest companies by market capitalization that are listed on Bursa Malaysia and adhere to Bursa Malaysia guidelines (FTSE Bursa Malaysia KLCI, n.d.).

Nordin (2016) estimated that Malaysia's stock market capitalization and total debt outstanding were 165% and 97% of nominal GDP, respectively, at the end of 2010.