



UNIVERSITI TEKNOLOGI MARA

**THE RELATIONSHIP BETWEEN THE STOCK
MARKET AND INFLATION IN MALAYSIA**

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ABSTRACT

There is a lot of matrix factors that influencing the stock market. This is very crucial in determining the performance of the stock market especially in Malaysia. This research will give further insight and deep overview on how the dependant variable can be determined by independent variable which is interest rate (IR), consumer price index (CPI), gross domestic product (GDP). The data used is time series data from 1985 to 2020 and will resulting to 35 sets of data, and being analysed by using multiple type of test.

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CHAPTER 1

INTRODUCTION

1.1 Introduction

The financial projection in this modern world is more complex as compared to before. This is due to the government invested millions or even billions to make the infrastructure of technology complete. As more information is penetrated into the majority of the population, investors sentiment towards the stock market is now driven by data and analysis. Back then, inflation indicates a bad sign towards the economy but as more people are getting the right and bold knowledge, many of them took cautious steps in making investment decisions regardless of what the stages of the economy are as they have already known the basic foundations of the macroeconomics factors.

Stock market plays an important role in the development and growth of a country. Not only that, it also encourages capital formation and sustains economic growth. From the side of the stock market prices, it moves and changes on a daily basis based on demand and supply. There are many factors behind the ups and downs of the price of the stock market such as, company fundamentals, investors sentiment and some of the external factors. From many external factors, inflation is one of them.

Inflation is usually explained as a steady rise of prices of goods and services in an economy in a certain period of time. Every time when the level of inflation rises, each currency can only buy less goods and services than before, which means it destroys the purchasing power of the money or currency. In most cases, inflation is measured by using Consumer Price Index (CPI). Inflation could affect in both either negative and positive ways, but mostly it leads to negative impact. The side effect of inflation shows that the value of money or currency decreases. On the other hand, the uncertainty over future projection of inflation may let down many individuals to make an investment as well as savings. In making an investment, inflation rate is one of the indicators that investors should give proper attention, otherwise the value of investment will just erode