



UNIVERSITI TEKNOLOGI MARA

**THE EFFECT OF MACROECONOMIC FACTORS
ON MARKET STABILITY IN MALAYSIA**

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ABSTRACT

Malaysian Stock Market have been developing and improving over the past years. The stock market has turn into one of the crucial indicators for the economies. The study is mainly focused on the effects of macroeconomic factors on market stability in Malaysia. The selected macroeconomic factors are interest rate (IR), gross domestic product (GDP), inflation rate, exchange rate and unemployment rate. The study analyses thirty (30) years of secondary data, ranging from 1991-2020 on yearly basis through several methods such as multiple regression analysis, variance inflation factors (VIF), descriptive analysis and correlation analysis. This study will be able to provide the information for the rising problems for the governments, policy makers, regulators and also investment community. The study shows the effects that the macroeconomic factors on the market stability. This study will also be able to explain the performance of Malaysian stock market.

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CHAPTER 1: INTRODUCTION

1.1 INTRODUCTION

One of the most important things in creating a strong foundation for a country is the stability of its market. The stability of the market shows the performance of the country in terms of economic. A stable market means a state or a condition where there is no prime disturbance with the transactions in the market in which it has an output that is fair and constant. A stable market tend to attract investments from various parties where they can see that the country has higher percentage in gaining profits.

The future of a country lies on how the leading hands manage in each and every aspect such as the development, culture, political, economic and some other aspects that must be build, strong and sturdy. To ensure the consistency to achieve a great country to live in, the economy aspect can be seen as one of the foundations for source of income and a benchmark. According to Emily Garr Pacetti, a former associate director of an American private foundation, The Rockefeller Foundation, to build an inclusive economy which means an economy that creates sustainable and inclusive societies, it demands for five (5) characteristics which are stability, participation, equity, growth and sustainability.

The crucial part of the economy being stable is that it gives a certain level of confidence in the future for individuals, businesses, governments and communities. It also increases the ability for them to predict the upshot of their decision-making in economic. The economic systems tend to be very resilient to the pressure and unpredictable events, mainly impact on the helpless communities. The market represent how well the economy is being handled. On that account, the Kuala Lumpur Composite Index (KLCI) can be a benchmark to evaluate the stability of the stock market in Malaysia because according to a statement on Bursa Malaysia website, the index was improvised in order to make it remains relevant to measure national economy.