# UNIVERSITI TEKNOLOGI MARA

# THE EFFECT OF MACROECONOMIC FACTORS ON MALAYSIAN STOCK MARKET

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# ABSTRACT

The study is examining the effect of macroeconomics factors which include interest rates (IR), inflation rate (INF), gross domestic product (GDP) and foreign direct investment (FDI) on Malaysian stock market index (FBMKLCI), with used the annual time series data for the 2000 until 2019 period. This study will be using a variety of tests such as descriptive analysis, correlation, and regression. A few assumptions test also conducted in this research which include normality test, multicollinearity test and heteroskedasticity test. Multiple Linear Regression are used to explore the statistical relationship and evaluate the hypotheses in this research. The expected outcomes are all the selected macroeconomics variable are significantly impact on FBMKLCI. However, based on the empirical result from multiple linear regression analysis demonstrate only gross domestic product has significant effect on FBMKLCI, while interest rates, inflation rates and foreign direct investment are insignificant.



**Key words**: FTSE Bursa Malaysia KLCI, stock market index, interest rate, inflation rate, gross domestic product, foreign direct investment.

## TABLE OF CONTENTS

# CHAPTER ONE
# INTRODUCTION

## 1.1 Introduction

This research conducted to examine the link between macroeconomic factors and the Malaysian stock market index. The Malaysian stock exchanges are FTSE Bursa Malaysia KLCI (FBMKLCI). Meanwhile, four macroeconomic factors involved are interest rate, inflation rate, gross domestic product and foreign direct investment. In this chapter will covered on the background of the study, problem statement, research question, research objective, significant of the study, and study scope.

## 1.2 Background of the study

Stock market is important in determining if economy of one country is growth or strong. A rising stock market reflects an expanding economy and indicates a shoot up or grow in industrial sector (Ahmad Hamidi, Khalid, & Karim, 2018). Furthermore, a good and strong in term of performance of stock market may likely impress the local and foreign investors, in which will lead to economic boost up for one country. This is extremely true because, when strong economic growth, it means that the companies in the country is successful enough with have a good financial performance every quarter and year. Therefore, when this happened, it will boost investor confidence to invest in that such companies that listed on the stock market because of good financial performance and sustain business. Thus, it will indirectly expand and attract additional capital or investment dollars into the economy (Md Isa, Ismail, A Latif, Abd Rahman, & Mazhan, 2019).

Stock market is a place or also known as marketplace for companies to issues shares on public for purpose of generate capital, pay debt, or pay for cost of operation for their business. In addition, it also gives opportunity for investors to generate income from capital gain or dividend gain that given from the company. As stock market investment decisions come with risk-taking and uncertainty, stock market index is designed to help those investors in evaluating and study about overall performance of the stock market. The analysis of stock market index behaviour is strongly relate with the goal of giving this kind of investors with the important information to make the correct investment decision at the right time and in the appropriate