UNIVERSITI TEKNOLOGI MARA

THE IMPACT OF MACROECONOMIC VARIABLES TOWARDS THE PERFORMANCE OF INDIAN STOCK MARKET (BSE SENSEX)

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ABSTRACT

Macroeconomic variables are the factors that affect the economic conditions, concern the price level and involve the international activities that give an impact towards market. The stock market plays an important role to expand the industries activities that will affect the economy. A primary market where it let the companies to issue or sell shares for the first time through Initial Public Offering (IPO) or it is the collection of markets and exchanges where shares of publicly held by firms that are purchased, sold and issued. After the new securities have been sold, it will be traded through secondary market. The performance of the stock market has been discovered by the past researcher where they had identified the changes in the stock market are not only affected by the macroeconomic variables. They believed that non macroeconomic variables also contributed to the changes in the stock market in the developing country. Even though a lot of research has been done towards developing and emerging markets, it less research towards has been conducted for India. This study is to examine the relationship between macroeconomic variables that is COP, ER, GDP, INF, IR and M2 with BSE SENSEX (Indian Stock Market). The proxy that will be use in this research is COP for Crude Oil Price, ER for Exchange Rate, GDP for Gross Domestic Product, INF for Inflation, IR for Interest Rate and M2 for Money Supply. The data will be test by using E-Views Software. This research found that only INF has positive relationship with Indian Stock Market return (BSE SENSEX).

Keyword: Stock market, COP, ER, GDP, INF, IR and M2.

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TABLE OF CONTENTS

CHAPTER ONE
INTRODUCTION

1.1 Introduction

In this chapter, it explained about the impact of macroeconomic variables towards performance of Indian stock market (BSE SENSEX). This research explained overview of the study so that other researcher knows the relationship between macroeconomic variables such as exchange rate, inflation and interest rate towards BSE SENSEX. The past researcher acknowledges that selecting the macroeconomic variables is very important because it can protect those variables that might be objectively affect the condition of the country's economy and financial status of the country.

Sensex is the benchmark index for Bombay Stock Exchange (BSE) that almost consists of 30 largest and most actively-traded stocks on BSE. BSE SENSEX was established in year 1875 and it was the oldest in the Asia. It also known as "The Native Share & Stock Brokers' Association" that help the companies to increase their funds. Almost 5000 listed companies in BSE that have market capitalization of USD1.68 trillion on March 2015.

It has been noticed that Indian capital market was considerable as a sources to increase their resources for Indian corporates. Total market capitalization of Bombay Stock Exchange's (BSE) as a percentage of India's GDP has gain from 4% in 1978-1979 to approximate 26% in 2002-2003. Every year, the arrangement of the index will be reviewed in June and December. All the investor and analyst use Sensex because they can observe overall growth, development of particular industries and the fall of Indian economy.