



**DYNAMIC INTERACTION BETWEEN EXCHANGE RATES, INTEREST RATES
TOWARDS STOCK PRICES: EVIDENCE FROM MALAYSIAN CONTEXT**

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ABSTRACT

Many researchers came up with different findings from their study on the relationship between exchange rates, interest rates towards stock prices. Thus, this study was conducted with the purpose (1) to examine the relationship between exchange rates, interest rates towards stock prices in Malaysia and (2) to investigate Granger Causality between the relationship variables either the changes in exchange rates and interest rates was effected stock price in Malaysia or vice versa using monthly data from June 2006 to June 2015. The theory of Unit root test, Johansen Co-integration test and Granger Causality test will be used to determine the interaction between these variables. This study found that there is relationship between stock prices and exchange rates but no relationship found between stock prices and interest rates. By using Johansen Co-integration test, there is no long run relationship was found between the relationship variables of exchange rates and stock price and, interest rates and stock prices. There is also found that the exchange rate does not Granger cause stock price and stock price does not Granger cause exchange rates. Meanwhile, there is evidence found in this study that stock price are Granger cause the interest rates in Malaysia's economy area but the interest rates does not Granger cause the stock prices.

Keywords: Exchange rates, Interest rates, Stock prices, Johansen Co-integration, Granger Causality