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CHAPTER ONE :ECONOMIC ANALYSIS

1.0 INTRODUCTION

1.1 Introduction Of Economic Analysis

Economics analysis is a study of how people and society organize scarce and limited resources to produce goods and services to satisfy unlimited human wants. Economic can be divided into two categories which is microeconomics and macroeconomics. Microeconomics is a study of the behaviour and decisions of individual entities, such a households, firms and markets. Meanwhile, macroeconomics studies the way in which individual markets work, the detailed way in which regulations and taxes affect the allocation of labour and goods and services. It examines the determination of the overall levels of economic activity such as unemployment rate, inflation, interest rate and growth domestic product.

After all, investors are interested in the potential earnings of specific firm not the whole economy. However, the variation in a stock price can be explained by movement in the overall market. The world is divided into those countries that are industrialized based on economic stability, populations and a level of income. In this report we will discuss how economic factors influence the stock market. This report aims to analyse the developed countries, the developing countries and the third world countries. Developed country is a country with a lot of industrial activity and where people generally have high incomes such as United States, Japan, China and German. The developing countries generally categorized as a countries that are having a standard of living or level of production below the possible income such as Malaysia, Singapore, Indonesia, Vietnam and Thailand while the third world countries generally described those countries that are typically poor with underdeveloped economies such as Timor-leste, Mozambique and Madagascar.

1.2 Factors That Influence The Stock Market

1.2.1 INTEREST RATE

Typically, low or declining interest rates are considered a positive trend for business overall. Lower interest rates allow companies to borrow money to expand their business more cheaply and it will reduce the incentive to save because it give a smaller return from saving. The currency will tend to depreciate because it makes exports more competitive and imports expensive.

High or sharply rising interest rates typically result in less borrowing by businesses overall which results in less expansion of operation. Higher interest rate will tend to reduce consumer spending and investment. It costs the investor to borrow money as banks make borrowing more expensive and companies will pay higher rates of interest. Less business spending can slow the growth of the economy.

1.2.2 INFLATION RATE

Inflation is a defined as a persistent and sustained increase in the aggregate or average price level of goods and services in an economy. An inflation implies that there is an increase in the cost of living that causes lower purchasing power. Low inflation encourage investor to take on riskier investment that can lead to higher return in the long term. It also can improved economic performances.

High inflation result in sharp price increases for goods and services. It will rise in the cost of raw materials. Workers will tend demand higher wages to cope with the higher cost of living. During high inflation, a company will rising interest rates which will increase cost of borrowing that will cause for the investor to hold back on investment. It will slow down the economy performances.

1.2.3 UNEMPLOYMENT RATE

Unemployment occurs when people who are in the working age group are able and willing to work but are unable to find suitable jobs. Unemployment is often used as a measure to gauge the health of the economy in a country. The size of labour force is determined by several factors such as population size, population growth, sex distribution, age distribution, levels of income, educational opportunities and employment opportunities.

A low unemployment rate can be an indicator of an economy expansion while high unemployment can be an indicator of an underperforming economy. A raise or lower interest rates depending on whether the economy is too hot or cold. This can effect on stock and security prices. Low employment rates are a blessing for the stock market as the investor will be more interested to invest in a country with a good economy condition.

1.2.4 GROSS DOMESTIC PRODUCT (GDP)

Gross domestic product (GDP) is the total market value of all final goods and services produced within a given period of time by factors of production located within a country. GDP excludes goods and services produced by Malaysian citizens working overseas, but includes value of output produced by foreign workers in Malaysia.

Country with higher GDP means an increasing amount of production that is taking place in the economy and shows there is an increase in the lifestyle of citizens with higher income.

1.3 THE WOLRD ECONOMY

1.3.1 The Developed Country

1.3.1.1UNITED STATES

YEARS	GDP	Interest Rate	Inflation Rate	Unemployment Rate
2016	1.57	3.51	1.26	4.87
2017	2.22	3.90	2.13	4.36
2018	2.86	2.25	2.44	3.90