



**THE INFLUENCE OF FOREIGN DIRECT  
INVESTMENT AND THE NOMINAL EXCHANGE  
RATE ON THE DEVELOPMENT OF MALAYSIAN  
STOCK MARKET**

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## **Abstract**

Foreign direct investment (FDI) is a marker of worldwide flow of capital and also one of the macroeconomics variable as well as the nominal exchange rates (EXRT). These two variables have relation towards stock market development of the host country. But, the FDI getting more consideration since capital control liberalizing policies being practiced by developing countries had increased their growth in recent past. Since limited studies done on the issue related to the influence of FDI on a country's stock market, besides few such studies has been conducted in Malaysia. Therefore this paper will study the response of stock markets towards FDI and EXRT as in general stock markets give an estimate of investors' trust and economic activity. This study examined the relationship between the stock market development which represents as MCAP, FDI and EXRT as a dependent and independent variables. The data were collected from Q1 1997 until Q4 2015 using quarterly data. The results show that there is no significant relationship between the FDI and stock market development but a significant relationship between EXRT and the stock market development. The cointegration test had been conducted in this study and proved that all these three variables have long run relationship using the Johansen Cointegration test.

**Keywords:** Foreign direct investment, nominal exchange rate, stock market development (MCAP), co-integration test.