



**THE EFFECT OF INFLATION RATE AND EXCHANGE  
RATE TOWARDS FBM KLCI**

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**MAY 2011**

## DECLARATION OF ORIGINAL WORK



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I, *Faiza Rizal Bin Anual*,

Hereby, declare that,

- This work has not previously been accepted in substance for any degree, locally or overseas and is not being concurrently submitted for this degree or any other degrees
- This project paper is the result of my independent work and investigation, except where otherwise stated
- All verbatim extracts have been distinguished by quotation marks and sources of my information have been specifically acknowledged.

Signature:

Date: MAY 2011

## ACKNOWLEDGEMENT

All praises to almighty GOD, the most merciful and the most benevolent for giving me the opportunities in completing this research paper. It would be impossible for me to spent time to complete this study without the grace and help from HIM.

I am greatly indebted to Miss Saloma Binti Mohd Yusoff whose excellence in supervision and plays a big role in inspired my work. Without her untiring encouragement, suggestions, ideas and comments throughout this study, this research could not be completed.

I also would like to convey my deepest gratitude and indebted to En Fahmi Rahim in guiding all the students in doing this project paper, and librarian of Universiti Teknologi MARA, Malacca City Campus for their co-operation and help throughout the duration of this research.

I dedicate this research to my beloved parents and for their endless support and understanding and also to the rest of my families for their help and encouragement. Beyond a simple thank you, I want them to know that I really appreciate what they had done to me.

I wish to express my deepest gratitude to all my friends, who shared their valuable experience, time and commitment. Without their patience, this study cannot be complete.

## ABSTRACT

A stock market performs a number of important roles in the economy. Normally investor look up at Kuala Lumpur Composite Index to see whether the stock market doing well or not. It indicates the way of the economic path face by the country. When the economic doing very well, it will reflects highest indices vice versa shows decrease indices in the economic downturn. The performance may be influence by many factors, relation with economics of views and perspectives. It may be cause by inflation and exchange rate. For certain investors the movement of KLCI will give initial signal to them to make better investment decision. Malaysian economic growth also can be roughly to be said in a good or bad condition by refer to this indices. This study seeks to investigate the response of KLCI towards inflation rate and exchange rate. The timing of research taken was in range of five years makes use of monthly data ranged from January 2006 to December 2010. The study will be used regression method to see the relationships between dependent and independent variables. The dependent variable of the study is the Kuala Lumpur Composite Index (KLCI). Two independent variables were selected and identified namely as inflation rate (CPI) and exchange rate. Both inflation and exchange rate shows negative relationship with stock prices. It is note specifically that movements in Malaysian stock market are driven by more domestic macroeconomic factors. The negative relationship between exchange rate and stock prices meaning that Malaysian economy is highly dependent on international trade. Whereas the negative relationship between inflation and stock prices indicates that equities cannot be a good hedge against inflation.

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