

**PRICE DYNAMICS IN RELATION TO FOREIGN EXCHANGE
MARKET AND KUALA LUMPUR COMPOSITE INDEX: A
COINTEGRATION APPROACH**

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UNIVERSITI TEKNOLOGI MARA
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APRIL 2004

Tarikh : 22 hb. April 2004
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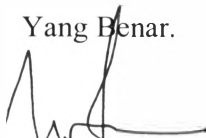
Ybhg. Prof.,

**LAPURAN AKHIR PENYELIDIKAN “ PRICE DYNAMICS IN RELATION
TO FOREIGN EXCHANGE MARKET AND KUALA LUMPUR COMPOSITE
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Merujuk kepada perkara di atas, bersama-sama ini disertakan 3 (tiga) naskah Laporan Akhir Penyelidikan bertajuk “PRICE DYNAMICS IN RELATION TO FOREIGN EXCHANGE MARKET AND KUALA LUMPUR COMPOSITE INDEX : A COINTEGRATION APPROACH”

Sekian, terima kasih

Yang Benar.



Nik Muhd. Naziman Ab. Rahman
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Projek Penyelidikan

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ABSTRACT

This paper examines the dynamic linkages between the foreign exchange and stock markets for five East Asian countries, including Hong Kong, Japan, Malaysia, Singapore, and Thailand. While the literature suggests the existence of significant interactions between the two markets, our empirical results show that, in general, exchange rates Granger-cause stock prices with less significant causal relations from stock prices to exchange rates. Furthermore, this one-way Granger causality effect from exchange rates to stock prices becomes less significant during the Asian financial crisis of 1997. Our results also suggest that, there is insignificant long-run outlook (no cointegration) except for Hong Kong, implies that these financial assets share no common trends in their economy system and hence they will move apart in the long-run for countries that have higher trade size exchange rate fluctuations tend to exhibit significant influence on the equity market, regardless of the exchange rate arrangement system and the degree of capital controls during the Asian financial crisis of 1997.