A STUDY ON THE RELATIONSHIP BETWEEN ECONOMIC INDICATORS TOWARDS STOCK PRICE FINANCE SECTOR

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ABSTRACT

The study further examines the relationship between economic indicators towards stock price of finance sector. This study was done because of the controversy opinions about the relationship between economic indicators towards stock price finance sector. The sample consists of interbank interest rate, exchange rate and consumer prices index and financial stock prices. The single linear regression analyses are used to analyze the monthly data from 2001 until 2005. The findings of the study ended with a result, which found that there is a significant relationship between interbank interest rate and Singapore dollar exchange rate with financial stock prices. However, a shocking result found that there is no significant relationship between consumer price index with financial stock prices.

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1. INTRODUCTION

1.1. Background of the study

This decade has become one of the most dynamic periods in the development of our financial sector. The dramatic transformation of the financial structure to becoming increasingly more diversified, the industries becoming more consolidated and rationalized, and the system becoming more internationally integrated. The financial system also transitions into a more competitive environment in which the institutional arrangements are more deregulated and liberalized. The regulatory and supervisory approaches have also advanced to becoming a more principled and risk-based to improve the functioning and stability of the financial system.

The financial transformation has taken place in an environment of economic stability. Malaysia's economic performance has been characterized by sustained high quality growth and stable fundamentals. The underlying growth in the Malaysian economy has been solid. Malaysia has benefited from both the favorable external environment and the strong domestic demand. Malaysia has also benefited from the globalization of production with the geographical relocation of the production chain by an increasing number of both multi-national and local corporations across the Asian region. This trend has leveraged on the respective comparative advantages in countries of the region. Malaysia's distinct capabilities in a wide number of areas have increased its participation in this process. In addition, increased economic integration following the rise of intra-regional trade and investment has brought mutually reinforcing benefits in terms of the expanding regional opportunities. The strengthened corporate sector has also led to increased direct investment abroad by Malaysian companies. Going

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