A STUDY ON THE RELATIONSHIP BETWEEN CONSUMER PRICE INDEX, INTEREST RATES, MONEY SUPPLY AND EXCHANGE RATE TOWARDS PROPERTY INDEX IN MALAYSIA

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APRIL 2007

ABSTRACT

The purpose of this paper is to determine whether the relationship between consumer price index (CPI), interest rate refer to base lending rate (BLR), money supply (M2) and exchange rate (YEN/RM) can affect significantly towards property index (PI) in Malaysia. With that, CPI, interest rate, money supply and exchange rate will be as independent variable and PI will be as dependent variable. The study of data has been recorded in 10 years from 1996 to 2005 in monthly basis. Multiple Linear Regression analysis is used in finding out the relationship between dependent and independent variables. Based on the analysis, there is a significant relationship between interest rate (BLR) with the PI. However, there is no significant relationship between CPI, money supply and exchange rate with the PI. The PI reacts positively with the changes in interest rate but reacts negatively towards the changes in CPI, money supply and exchange rate.

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1.0 INTRODUCTION

Much theoretical and empirical work already exists focusing on the link between property returns and macroeconomic variables. According to the Journal *Macroeconomic risk factors in Australian Commercial Real Estate, listed property trust and property sector stock returns: A comparative analyses using GARCH-M by* **West T. and Andrew C.W. (2006)** said for instance, such information is demonstrably valuable in providing an improved understanding of property investment risk factors and yielding better and more accurate forecasts of future property returns, especially when "…considerable evidence indicates that state variables such as the slope of the term structure, expected and unexpected inflation, industrial production, and the spread between high-grade and low-grade bonds proxy for economic risk factors that are rewarded, ex ante, in the stock market" (**Ling and Naranjo 1997**, p. 284).

Prior studies such as **Chance and Lane (1980), Flannery and James (1984), Mansur (1995), Flannery et al. (1997) and Elyasiani and Mansur (1998)** have provided consistent evidence that stock returns are sensitive to interest rate movements and that unanticipated real interest rate is relevant in the pricing of common stocks. Similarly, several studies in the USA, UK and Singapore have observed that returns of direct real estate, REITs and property companies are influenced by interest rate movements.