

UNIVERSITI TEKNOLOGI MARA

A STUDY ON HOW FOREIGN EXCHANGE (FOREX) MARKET, WORLD OIL PRICE AND STOCK MARKET INDEX INFLUENCE THE STABILITY OF MALAYSIA'S ECONOMIC GROWTHS

WAN NOR IZURA BT WAN ISMAIL

2004337731

**BBA (HONS) FINANCE
FACULTY OF BUSINESS MANAGEMENT
UNIVERSITI TEKNOLOGI MARA
KELANTAN**

NOVEMBER 2006



**BACHELOR OF BUSINESS ADMINISTRATION (HONS)
FACULTY OF BUSINESS MANAGEMENT**

DECLARATION OF ORIGINAL WORK

I am WAN NOR IZURA BT WAN ISMAIL

I/C Number: 830908-03-5354

Hereby, declare that:

1. 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.
2. This paper is the result of the independent investigation of the analyst, except where otherwise stated.
3. All verbatim have been distinguished by quotation marks and sources of information have specifically acknowledged.

Signature: 

Date: 30 October 2006

TABLE OF CONTENT

<u>CONTENTS</u>	<u>PAGE</u>
DECLARATION	ii
LETTER OF SUBMISSION	iii
AKNOWLEDGEMENT	iv
TABLE OF CONTENTS	vi
LIST OF TABLE	ix
LIST OF FIGURES	x
ABBREVIATION	xi
ABSTRACT	xii
CHAPTER 1: INTRODUCTION	
1.1 Background of Study	
1.1.1 Overview of economic growth in Malaysia	1
1.1.1.1 Obstacle in maintaining the stability of economic growths	3
1.1.2 Overview of FOREX market	6
1.1.3 Overview of stock market index	7
1.1.4 Overview of world oil price	9
1.2 Problem Statement	11
1.3 Objectives of study	14
1.4 Scope of study	15

1.5	Theoretical Framework	16
1.6	Hypothesis	17
1.7	Significance of Study	19
1.8	Limitation of Study	21
1.9	Definition of Term	23

CHAPTER 2: LITERATURE REVIEW

2.1	Stock Market Index and Economic Growth	26
2.2	World Oil Price and Economic Growth	28
2.3	FOREX and Economic Growth	30

CHAPTER 3: RESEARCH METHODOLOGY

3.1	Data Collection Method	35
3.2	Method for Analysis Data	36

CHAPTER 4: FINDING AND ANALYSIS

4.1	Chapter Description	47
4.2	Interpretation of Result	47
	Simple Linear Regression Model	
4.3	Interpretation of Result	69
	Multiple Linear Regression Model	

ABSTRACT

The focus of the study is to measure the relationship between independent variables (FOREX market, world oil price, stock market index) and dependent variable (economic growths). This study is based on secondary data that has been collected from Bursa Malaysia, Bank Negara Malaysia (BNM), Department of Statistic and OPEC in quarterly basis, ranging from the year 1991 to 2005 in order to see the trend within the period. Since the study aims to determine the relationship between those independent variables with the economic growth, the researcher has used 3 methods of regression which are Simple Linear Regression Model, Multiple Linear Regression Model and Pearson Coefficient Correlation. T-Statistic is a correct and reliable test to measure the close relationship between dependent and independent variables. Thus, from Simple Linear Regression, by using the t-test indicates that US Dollar, Singapore Dollar and KLCI involved in this study have no relationship with economic growths. However, using Multiple Regression Model, by using t-test, KLCI and world oil price has significant relationship with economic growths. Meanwhile by using Pearson Correlation Coefficient, all independent variables have strong positive correlation with economic growths except KLCI which has a weak positive correlation. Thus, from the result we can conclude that the world oil price is the most significant factor in influencing our economic growths.