

UNIVERSITI TEKNOLOGI MARA

**COMPARATIVE PERFORMANCE ON ARIMA AND GARCH
MODELS IN MODELLING VOLATILITY OF KIJANG EMAS**

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Final Year Project Submitted in Partial Fulfillment of the Requirements
for the Degree of

BACHELOR OF SCIENCE (HONS.) STATISTICS

FACULTY OF COMPUTER AND MATHEMATICAL SCIENCES

JULY 2019

ABSTRACT

In financial time series, modelling and forecasting volatile data gain a huge interest among researchers. In brief, volatility is known where the conditional variance changes between extremely high and extremely low values. In this study, modelling and forecasting performance will be carried out using a set of real data which is Kijang Emas prices. The model investigated were Box-Jenkins Autoregressive Integrated Moving Average (ARIMA) model and Generalized Autoregressive Conditional Heteroscedasticity (GARCH) model. The overall behavior of Kijang Emas prices stated that there were trend, irregular and cyclical components exist and no seasonality component exists in the data series. In estimating the parameters for both Box-Jenkins ARIMA model and GARCH model, Maximum Likelihood Estimation (MLE) were used. The modelling performance of ARIMA were evaluated by using Akaike's Information Criterion (AIC) and Schwarz Information Criterion (BIC). The results of the study concluded that ARIMA(1,1,1) is the best model by comparing the AIC and BIC value. For GARCH model, only AIC were used and by comparing the value of AIC, GARCH(1,1) is choose as the best model. Next, the forecasting performance of both models will be evaluated by using Root Mean Square Error (RMSE) and Mean Absolute Percentage Error (MAPE). The process of modelling ARIMA was done using Eviews and R was used for modelling GARCH. In terms of forecasting performance between ARIMA(1,1,1) and GARCH(1,1) models, it can be concluded that GARCH(1,1) is a better model for Kijang Emas prices data compared to ARIMA(1,1,1).

ACKNOWLEDGEMENT

IN THE NAME OF ALLAH, THE MOST GRACIOUS, THE MOST MERCIFUL.

All praises to Allah S.W.T for giving us strength to complete this report for Final Year Project (FYP) successfully. We are really grateful that Allah had ease our task from the beginning until we had done the report. With the understanding from all group members, the task given was completed without any problems and this report had been completed on time. Without His numerous blessings it would not be possible to finish this report.

Next, we would like to express our gratitude to Universiti Teknologi MARA (UiTM) Negeri Sembilan Branch, Seremban Campus for giving us the opportunity to be involved with such an interesting project that gives us an idea on how to do a research based on real data. Also, it helps us on how to face and manage the real world situation. Special gratitude to our Final Year Project supervisor, Madam Isnewati Binti Abd Malek who had given us a lot of guidance and constant support while the project was completed within semesters. Her valuable help, suggestions and supervision throughout the project had contributed to the success for this report. Without her help, we would not able to complete this report properly and there will be a lot of mistakes done without our knowledge.

Furthermore, we would like to thank Madam Marina Binti Mahmood, our language editor who spent her time checking the grammar mistakes and spelling errors in the report. Her suggestions and comments helped us to improve our language skills. Deepest gratitude to our family members who supported us financially and emotionally throughout the project. They have also give us moral support to complete the project. Finally, to our colleagues who helped us weather direct or indirectly to complete the project. Only Allah can repay all your kindness.

**MUHAMMAD SYAWALLUDIN BIN YAHAYA
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