



**DETERMINATION OF RELATIONSHIP BETWEEN FOREIGN  
EXCHANGE RATE (USD/MYR) AND INTEREST RATE WITH THE  
KUALA LUMPUR COMPOSITE INDEX (KLCI) PERFORMANCE**

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## **CHAPTER 1**

### **THE STOCK MARKET INDEX**

#### **1.1 INTRODUCTION**

The stock market or equities securities has become an essential market which plays an imperative function to the economy that develops capital formation in sustaining economic growth. Stock market is a listing stock while statistics reflects the composite value of the stock's components. In Malaysia, it is known as the FTSE Bursa Malaysia Kuala Lumpur Composite Index (KLCI) which represents the top selected companies which is used to represent the characteristics of the components in the stocks, in which it has the same commonality such as trading in the same stock market which belong to same industry or having similar market capitalization.

Elumilade and Asaolu (2006) stated that in the stock market, which can be divided to the primary and secondary market, the stock market provides the opportunity to the investors either individual, retail or corporate to make profit from the market in the form of capital gain and also dividend payment. Thus, the trend and condition of the stock market is crucial to the managers and investors especially in decision making to reduce the level of uncertainties which could lead to losses

in the medium and long term investment. The Kuala Lumpur composite Index (KLCI) is used as the platform of the performance of the stock market in Malaysia to analyze the trend and performance in the market. A stock market index can be based on a stock exchange or solely based a sample of stocks. Stock index is the general behaviour of stock prices by measuring the current price behaviour of representative group of stocks in relation to a base value set at an earlier point time.

The indices can be simply computed on the simple average closing price basis while others are derived using a weighted average method. In Bursa Malaysia, all the indices were calculated electronically on minute basis which makes it available immediately to stock broking companies and other real time market information subscribers.

## **1.2 BACKGROUND OF STUDY**

This study will determine the correlations between the market interest rate, which also known as the base lending rate in Malaysia as well as the foreign exchange rate (USD/MYR) with the Kuala Lumpur Composite Index (KLCI) performance. Based on a statement by Md. Gazi (2009), the interest rate in a country is one of the important