



اُونِيُوَرَسِيْتِي تِيكْنُولُوْجِي مَارَا

UNIVERSITI TEKNOLOGI MARA
CAWANGAN KELANTAN

**THE RELATIONSHIP OF INTEREST RATE (BLR), INFLATION
RATE (CPI) AND EXCHANGE RATE (RM/USD) ON SHARE PRICE
OF FINANCE SECTOR**

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ABSTRACT

The purpose of this project paper is to know the relationship of interest rate (BLR), inflation rate (CPI) and exchange rate have a relationship between the share prices of the finance sector. The study focused on Kuala Lumpur Stock Exchange (KLSE) a finance share price that represents eight companies selected in the Kuala Lumpur Composite Index (KLCI). The data has been collected on monthly basis from year 1999 until 2006. The study is to test the relationship between inflation rate (CPI), Interest rate (BLR) and Exchange rate (RM/USD) influence the share price of the Finance sector. From the multiple Linear Regression analysis, it can be concluded that there is no relationship between interest rate (BLR), Inflation rate (CPI) and exchange rate on share price of finance sector. Upon completing this study, several recommendations are given based on the findings and analysis of this study.

TABLE OF CONTENT

DECLARATION OF ORIGINAL WORK	i
LETTER OF TRANSMITTAL	ii
ACKNOWLEDGEMENT	iii
LIST OF FIGURES AND TABLES	iv
LIST OF ABBREVIATIONS	vi
DEFINITION OF TERMS	vii
TABLE OF CONTENTS	ix
ABSTRACT	xiii
1.0 BACKGROUND OF THE STUDY	
1.1 Introduction	1
1.2 Problem Statement	4
1.3 Objectives of the study	6
1.4 limitation of the study	7
1.5 Scope of the study	8
1.6 Significant of the study	9
1.7 Theoretical Framework	11
1.8 Hypothesis	13
2.0 LITERATURE REVIEW	
2.1 Interest Rate	16
2.1.1 Concept of Interest Rate	16
2.1.2 Literature Review of Interest Rate	16
2.2 Inflation Rate	20
2.2.1 Concept of Inflation Rate	20
2.2.2 Literature Review of Inflation Rate	21
2.3 Exchange Rate	24
2.3.1 Concept of Exchange Rate	24
2.3.2 Literature Review of Exchange Rate	25

1.0 BACKGROUND OF THE STUDY

1.1 Introduction

A healthy and developing financial sector is a key support to balance and sustainable economic growth. Globalization and financial reforms in Malaysia have ushered in a change in the financial architecture of the economy. With the financial sector at the crossroads of the macroeconomic, it not only has immense potential to invigorate and broaden economic growth, it can also impair macroeconomic policy and stability.

The stabilization of financial markets is an important condition to restore market confidence. Weaknesses and some issues arise in the financial sector should be given urgent attention. This is because, it will lead to the investor or customer having no full believes on our institutions. There are some issues and weaknesses that might put our financial institution at risk and makes our investor do not have any confident to invest in our local financial institution, such as;

- The conspiracy in the financial sector such as Tabung Haji where the top management at Tabung Haji had been sentenced because of corruption on the money invested.
- The management of the financial institution itself such their operation and the system running such as the way they treat and service their customer.