

**A STUDY ON THE EFFECT OF MACROECONOMIC VARIABLES  
TOWARDS THE PERFORMANCE OF KUALA LUMPUR  
COMPOSITE INDEX (KLCI)**

**ABDUL FATAH BIN AHMAD  
2005652618**

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

**APRIL 2007**

## **ACKNOWLEDGEMENT**

**“In the name of Allah the Most Gracious, the Most Merciful”**

Praise to Allah S.W.T. the Lord of the universe, for his wisdom, strength and blessings to complete this project paper. Peace and blessings of Allah be upon His Messenger, Muhammad S.A.W.

First and foremost, I would like to thank my respectable advisor Pn. Azizah bt Isa, who has made a significant contribution and provided me her great analytical skills, kindness and timely responses for the completion of this research.

My special thanks also goes to my entire adored lecturer, especially to Associate Prof. Roslan b. Ab Rahim as my second examiner whom had given me the knowledge I need to fulfill the requirement of my study. They have given me encouragement and hope for me to be more success.

I also wish to convey a special thanks to all the staff of the KLSE library and all those who are directly and indirectly involve for their cooperation and commitment in providing valuable information in making this research possible.

Last but not least, thanks a lot to my beloved family for their encouragement and morale support. I also would like to express my utmost gratefulness and appreciation to my friends and colleagues for contributing ideas and giving suggestions.

## TABLE OF CONTENTS

<b><u>Title</u></b>	<b><u>Page</u></b>
LETTER OF TRANSMITTAL	I
DECLARATION OF ORIGINAL WORK	II
ACKNOWLEDGEMENT	III
TABLE OF CONTENTS	IV
LIST OF FIGURES	VI
LIST OF ABBREVIATIONS	VIII
DEFINITION OF TERMS	IX
ABSTRACT	XI
<b>CHAPTER 1: INTRODUCTION</b>	
1.0 History of Bursa Malaysia	1
1.1 Kuala Lumpur Composite Index	2
1.2 Chronology of Bursa Malaysia and KLCI	9
1.3 Problem Statement	11
1.4 Objectives of the study	13
1.5 Theoretical framework	14
1.6 Hypotheses	15
1.7 Scope of the study	17
1.8 Limitations of the study	18
1.9 Significance of the study	19
<b>CHAPTER 2: LITERATURE REVIEW</b>	21
<b>CHAPTER 3: RESEARCH METHODOLOGY</b>	
3.0 Research Methodology	28
3.1 Data collection	28
3.2 Method for analyzing data	29

## **ABSTRACT**

The study was conducted to find out the significant relationship between macroeconomic variables with Kuala Lumpur Composite Index. The variables selected are economic growth, inflation, interest rate and exchange rate. For the interest rate, Base Lending Rate has been used as the indicator. Meanwhile, the exchange rate used is the Japanese currency (YEN). The method used for this study is the regression analysis. The result then has been interpreted based on the correlation, coefficient correlation, Durbin-Watson, F-statistic and T-statistic. The data used for the study are collected for the period of fifteen years and using the monthly data from 1991 to 2005. Based on the result, it was concluded that the economic growth and exchange rate are not significant to the KLCI. However, there are significant relationships between inflation and interest rate to the KLCI. Inflation rate has a positive relationship, meanwhile interest rate has a negative relationship with KLCI.

## **CHAPTER 1 : INTRODUCTION**

### **1.0 History of Bursa Malaysia**

Malaysia begins with the security business with the established Singapore Stockbrokers' in 1930. It was re-registered as the Malayan Stockbrokers' Association in 1937. Then in 1960, the Malayan Stock Exchange was established and the public trading of shares commenced. The system of trading was linked with the rooms in Singapore and Malaysia with direct telephone line.

In 1964, the Stock Exchange of Malaysia was established. With the secession of Singapore from Malaysia in 1965, the Stock Exchange of Malaysia became known as the Stock Exchange of Malaysia and Singapore. In 1973, currency interchangeability between Malaysia and Singapore ceased, and the Stock Exchange of Malaysia and Singapore was divided into the Kuala Lumpur Stock Exchange Berhad and the Stock Exchange of Singapore. The Kuala Lumpur Stock Exchange which was incorporated on December 14, 1976 as a company limited by guarantee, took over the operations of the Kuala Lumpur Stock Exchange Berhad in the same year.

On April 14, 2004, Kuala Lumpur Stock Exchange was changed its name to Bursa Malaysia Berhad, the purpose of which was to enhance the competitive position and to respond to global trends in the exchange sector by making it more customer-driven and market-oriented. Bursa Malaysia was then focused