



**STOCK PRICES RESPONSE TO MACROECONOMIC VARIABLES:
EVIDENCE FROM MALAYSIA AND THAILAND**

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ABSTRACT

The purpose of this paper is to provide an analysis of the significance correlation between stock prices and some major macroeconomic variables. A negative relationship between stock prices and the macroeconomic variables has been widely documented for developed economies in Malaysia and Thailand. A simple model is formulated to show that real economic activities and stock prices are linked in the long run. An empirical analysis is then conducted for the case of Malaysia and Thailand. This research aims to study the linkages among the stock prices and 3 macroeconomic variables, namely Gross Domestic Product (GDP), Foreign Exchange (FOREX) and Money Supply (M2). This study was analyzed stock price reaction to the macroeconomic variables and this study was analyzing the relationship between these variables for 2 countries which are Malaysia and Thailand. The time horizon is during 1993 to 2004 which is 12 years and the data was gathered quarterly for this time period. The statistical test was conducted by E-Views and estimated statistical model to examine the significance level. There are some previous researchers have concluded that there are positive relationship between stock prices and the macroeconomic variables. There are also some of them says oppositely which there is negative effect. For this study, all the results were significance and all the null hypotheses were rejected. Then, as a conclusion, the relationship between stock prices and gross domestic product (GDP) was positive, the relationship between stock prices and money supply (M2) was negative and the relationship between stock prices and foreign exchange (FOREX) was positive. This study also can be use by the investors as their guideline to know the relationship between stock price and macroeconomic variables.