



FACTOR INFLUENCING YIELDS OF MALAYSIAN GOVERNMENT BOND

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ABSTRACT

This paper aims to examine the relationship between macroeconomic variables with government bond yields by using quarterly data from 2004 to 2014 and have total 44 observations in this paper. There are four variables that have been chosen as independent variables in this study which are Federal Government Budget Deficit, Government Debt, Consumer price Index (CPI) and Interest Rate (IR). To run the model and estimate the regression the Ordinary Least Square (OLS) method was used. Besides that, this paper also encounter that there is no serious multicollinearity problem, no autocorrelation, no heteroscedasticity, error term is normally distributed and model is correctly specified. Mathematically, a bond spread is the simple subtraction of one bond yields from another. Traders use yield spreads as their benchmark to valuing bonds. Most traders have computer trading systems, such as Bloomberg and PC Bond which allow them to quickly calculate historical and actual spreads between many different bonds. Moreover, as this study is on the yields spreads of Malaysian bond, it can be the guideline to the existing as well as the potential investor to make a good investment decision in the future.