UNIVERSITI TEKNOLOGI MARA

# IMPACT OF MACROECONOMICS VARIABLES ON STOCK MARKET RETURN IN MALAYSIA

**FINAL REPORT**


**NURIZZAH BTE ABDULLAH**

**2012850582**


**BACHELOR OF BUSINESS ADMINISTRATION**

**(HONS) FINANCE**


**FACULTY OF BUSINESS MANAGEMENT**

**UNIVERSITI TERKNOLOGI MARA**

**SEGAMAT, JOHOR**


**7th DECEMBER 2014**

# ACKNOWLEDGEMENT

First and foremost, I would like to say Alhamdulillah to Allah S.W.T. because I managed to finish the research on time. Next, I would like to say thank you to my beloved and wonderful family for giving support to I from the initial stage until the final stage of the research. It surely helps a lot in gaining motivation and prevent I from become depress. Besides that, I also wants to give gratitude of appreciation to mine beloved lecturer and advisor, Madam Ruziah binti Abd Latiff for providing and giving a lot of guidance when doing this research. Without the guidance from her, surely I will not be able to understand the research and finish it on time. Lastly, I would like to say thank you to all my friends for giving advice and teach me on things that I don't know and give some ideas to me in order to deliver a good research.

# ABSTRACT

Stock market is one of the indicators of a country's economic growth. The movements of stock market return are based on several variables. Different countries will have different variables that affect the movement of stock market return. The stock market return in Malaysia shows fluctuation from the month of January 2007 to March 2014 and this volatility attract the researcher's attention to examine the variables that affect the movements of stock market performance in Malaysia. The aim of this study is to find the impacts of macroeconomics variables on stock market return. The samples for this study are monthly data taken from the period of January 2007 until March 2014. In order to examine the relationship between the selected macroeconomic variables with stock return, multiple regressions analysis is performed using e-views software. The dependant variable for this study is Malaysia stock market return (KLCI) while independent variables are as follows; Inflation (CPI), Gold Price, Money Supply, Interest Rate and Exchange Rate. The results indicate that there is a co-integration between the macroeconomic variables and KLCI. The result of this study is hoped to help investors make good investment decisions.

# TABLE OF CONTENTS


TITLE OF THESIS ..... i

DECLARATION OF ORIGINAL WORK ..... ii

LETTER OF SUBMISSION ..... iii

ACKNOWLEDGEMENT ..... iv

ABSTRACT ..... v

LIST OF FIGURES ..... 4

LIST OF TABLE ..... 5

CHAPTER 1: INTRODUCTION ..... 6

1.0 INTRODUCTION ..... 6

1.1 BACKGROUND OF STUDY ..... 8

1.2 PROBLEM STATEMENT ..... 9

1.3 RESEARCH QUESTION ..... 10

1.3.1 Main Research Question ..... 10

1.3.2 Specific Research Question ..... 10

1.4 OBJECTIVE OF STUDY ..... 11

1.4.1 Main Research Objective ..... 11

1.4.2 Specific Research Objective ..... 11

1.5 SIGNIFICANT OF THE STUDY ..... 12

1.6 SCOPE OF STUDY ..... 12

1.6.1 Limitation of Study ..... 13

1.7 DEFINITION OF TERMS ..... 13

1.7.1 KLCI (Kuala Lumpur Composite Index.) ..... 13

1.7.2 Stock Market ..... 13

1.7.3 Gold Price ..... 14

1.7.4 Exchange Rate ..... 14

1.7.5 Interest Rate ..... 14

1.7.6 Money Supply ..... 15

1.7.7 Inflation ..... 15

1.8 SUMMARY ..... 16

CHAPTER 2: LITERATURE REVIEW ..... 17

2.0 INTRODUCTION ..... 17

2.1 LITERATURE REVIEW ON TOPIC ..... 17

2.2 GOLD PRICE .....
2.3 MONEY SUPPLY .....
2.4 INFLATION (CPI).....
2.5 EXCHANGE RATE .....21
2.6 INTEREST RATE .....22
2.7 SUMMARY .....23
CHAPTER 3: DATA AND METHODOLOGY .....24
3.0 INTRODUCTION.....24
3.1 SAMPLE AND DATA .....24
3.1.1 Target population .....24
3.1.2 Sampling Size.....24
3.1.3 Data collection .....25
3.1.4 Variables .....25
3.2 THEORETICAL FRAMEWORK .....26
3.3 ECONOMETRIC METHOD.....26
3.3.1 Stationary Test; unit root test .....26
3.3.2 Correlation Test: Covariance Analysis.....27
3.3.3 Multiple Linear Regression Model .....27
3.3.4 Correlation Analysis.....28
CHAPTER 4: ANALYSIS AND INTERPRETATION OF DATA .....31
4.0 INTRODUCTION.....31
4.1 DESCRIPTIVE TEST.....31
4.2 UNIT ROOT TEST: TEST OF STATIONARY.....32
4.3 CORRELATION TEST: COVARIANCE ANALYSIS .....33
4.4 MULTIPLE LINEAR REGRESSION MODEL.....34
4.4.1 Individual test (t-test)/Coefficients.....34
4.4.2 F-Test .....37
4.4.3 Coefficient of Determination ($R^2$).....37
4.4.4 Adjusted $R^2$ .....38
4.4.5 Durbin Watson Test .....38
4.5 NORMALITY TEST .....39
4.6 AUTOCORRELATION TEST-SERIAL CORRELATION TEST .....39
4.7 HETEROSCEDASTICITY TEST-VARIANCE OF ERROR TERM TEST .....40
4.8 TEST ON FUNCTIONAL FORM.....40