



**RELATIONSHIP BETWEEN MACROECONOMIC
FUNDAMENTALS AND FINANCE SECTOR OF STOCK
MARKET:
EVIDENCE FROM BURSA MALAYSIA**

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ABSTRACT

Purposely this study is to determine the relationship between the selected macroeconomic variables includes economic activity, inflation rate, interest rate, exchange rate and money supply and finance sector of Bursa Malaysia. The data is time series data covering the period from 2007 to 2015 by using monthly data. The research intends to focus on methodology of data analysis namely Ordinary Least Square (OLS). The application of Ordinary Least Square (OLS) method is to examine the relationship between the selected macroeconomic variables includes economic activity, inflation rate, interest rate, exchange rate and money supply on finance sector of Bursa Malaysia. The dependent variable is finance sector of Bursa Malaysia and independent variables are economic activity, money supply, inflation rate, interest rate and exchange rate.

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CHAPTER 1: INTRODUCTION

1.1 Background of Study

In today's financially unified world, capital market generally and stock market particularly is important in displaying the performances of the economy. Therefore, it attracts a lot of interest among the policymakers, investment and financial analyst and researchers. However, these market player need to understand about what factors does impact the stock market (Gupta & Basu, 2009). It is important from the point of view of the investors, to understand about the relationship between the stock market and the causes that contribute to it, so that they can optimize returns and reduce risk in their portfolio by combining the information derived from the findings which is general rather than specific information with some other relevant information in order to create more effective strategies (Gupta & Basu, 2009).

Each investors' main objective is to achieve a fully and optimize risk-return combination. The achievement can be either by reducing the risk with an acceptable rate of return or by maximizing return with an accepted risk level. A diversified portfolio does not only concentrate in one or two investment strategies. Instead, it contains some stable types and some expected high return investments (Gupta & Basu, 2009). There are three levels in diversifying a portfolio where it can be done in country, sector (industry) or an organization levels. Most of the time, the portfolio diversification process is conducted and focused more on organization levels instead in country and sector levels. However, in the current conditions of a changing world in terms of its financial environment and existence of new economic powers, diversifications at country and sector levels expected to give some significant impact (Gupta & Basu, 2009).