



**STUDY ON CORRELATION AND CAUSALITY
RELATIONSHIPS BETWEEN STOCK PRICES AND
MACROECONOMIC VARIABLES**

CASE STUDY: MALAYSIA

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ABSTRACT

The relationship between the stock market and the economy has been studied extensively all over the world, some studies showed that there is in fact a relationship between stock returns and certain macroeconomic indicators, those studies were mostly conducted in developed economies. This study had been carried out to investigate the relationship between stock price and macroeconomic variables which are real interest rate, inflation rate, foreign exchange reserves and exchange rate. It will focus only in Malaysian stock. The objective is to explore the major macroeconomic variables, to study the effects of the macroeconomics variables on stock price and to investigate whether is there any correlation and causality between stock price and macroeconomic variables. The study had been carried out by using multiple regression analysis to identify the correlation and Granger causality test to determine the causality between dependent variable and independent variable. Based on the study, only real interest rate and exchange rate have negative correlation while inflation and foreign exchange reserves is positively related. As for causality testing, every dependent variable has no causality with stock price.

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