



**A STUDY OF MACROECONOMIC ACTIVITIES AND
CAPITAL STRUCTURE DECISION OF TECHNOLOGY
SECTOR IN BURSA MALAYSIA**

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**BACHELOR OF BUSINESS ADMINISTRATION (HONS)
FINANCE**

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APRIL 2010

ACKNOWLEDGEMENT

Bismillah hirahmanirrahim...

"in the name of Allah, the most gracious and the merciful".

Alhamdulillah, thanks to almighty Allah who gave me courage to complete this study on time. Peace and blessings of Allah be upon His Messenger Muhammad (S.A.W). I am grateful to Allah for everything that He has granted and for giving me the inner strength, skill and knowledge to face the challenge till the end.

On the other hand, this research study was made possible through the cooperation and contribution of many people. Here I would like to take this opportunity to dedicate from bottom of my heart for their helps to the following individual.

First and foremost a very grateful and special appreciation to my advisor Prof. Dr. Wan Mansor Wan Mahmood for believing in me to complete this study and not forgotten for his tremendous understanding, great assistance, careful guidelines, good support and beneficial criticism in conducting this research project.

Furthermore, this project was also made possible with a grant from my second examiner Pm. Hj. Zamri Mohd Noor for such a warm welcome and for accepting, supporting and give direction to me to do well. Do not forgotten, I would like also to thank to my parents for their support and provide to me extra money to complete this study.

Finally, I would like to thank to my beloved friends and to everyone who I have not mention for their helps reminding me and give beneficial information about anything related to this research.

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ABSTRACT

This study uses panel data which comprises of both time series and cross-sectional data involving multiple numbers of companies. By using the seemingly related regression approach, it is critical to mitigate the effect of macroeconomic factors on capital structure decisions of firms under technology sectors which are listed in Bursa Malaysia over the period of 2005 until 2009. The study is testing the relationships between the capital structure decisions of the companies and various macroeconomic variables in Malaysia. The study applies the multivariate cointegration methodology to establish the possible causal relations between these variables. Using factor analysis and panel data regression techniques, this study demonstrates the evidence of positive relationships between real capital structure decisions and measures of aggregate economic activity which are including inflation rate, overnight policy rate (OPR), gross domestic product (GDP) and size of firm. These variables are chosen taking into account the empirical literature in order to cover a wide spread of economic processes in the Malaysian economy as same as global economy conditions. The main value of this study is to analyze the effect of macroeconomic factors on the capital structure decisions of firms using large dataset from Malaysia country. Based on the finding analysis, a conclusion can be drawn that the major factor that colonize to capital structure choice is successfully determined. The result obtained from the statistical approaches shown that only one variable which is size of firm has a significant relationship with the firms' capital structure choice while the other independent variables which are overnight policy rate (OPR), inflation rate (IR) and Gross Domestic Product (GDP) have an insignificant relationship to the firms' capital structure decision which are unsuccessfully determined. However, the coefficient sign that determines the direction of their relationship shows two of the variables in relation such as Gross Domestic Product (GDP) and size of firm have consistently positive relationship for both test with the theory.