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

MOHD KHAIRUL AMIR BIN ZOLLKEFLY

2007284286

BACHELOR OF BUSINESS ADMINISTRATION (HONS) FINANCE

FACULTY OF BUSINESS MANAGEMENT

TERENGGANU CAMPUS OF

UNIVERSITI TEKNOLOGI MARA

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Bismillah hirahmanirrahim...

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

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TABLE OF CONTENTS

CONTENT	PAGE

CHAPTER ONE: INTRODUCTION

CHAPTER TWO: LITERATURE REVIEW

CHAPTER THREE: RESEARCH METHODOLOGY AND DESIGN

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.