UNIVERSITI TEKNOLOGI MARA

THE RELATIONSHIP BETWEEN MACROECONOMICS VARIABLE AND STOCK MARKET IN MALAYSIA

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ABSTRACT

Many macroeconomist theorists agrees that stock market performance is driven by different macroeconomic factors. Macroeconomic variables and stock market has a systematic effect on stock market returns. Stock market also will give the ability to access capital for company and investor if the stock market is good in providing support for economic development. Thus, this paper is to investigate the relationship between macroeconomics variables and stock market in Malaysia for the period of 2010 to 2021 by monthly data. This study has set five independent variables which are GDP growth rate, Interest rate, Inflation rate (consumer price index), Unemployment rate and Balance of trade. The dependant variable is FTSE Bursa Malaysia KLCI Index. The data collected is a secondary data. The dataset for this study consists of observations of one country which is Malaysia at numerous time intervals. This analysis used time series and the analysis are used is Descriptive Analysis, Covariance Analysis, Correlation Analysis, Multicollinearity analysis and Regression Analysis. Findings from this paper conclude that GDP growth rate have a negative relationship with the stock market. Next, Interest rate is having a positive relationship with stock market. Furthermore, the inflation rate (consumer price index) has positive correlation with stock market. Besides, there would be no stable long-term relationship between unemployment rate and stock markets. Lastly, balance of trade has a negative relationship between stock market.

CHAPTER ONE

INTRODUCTION

1.1 Introduction

The relationship between macroeconomics variables towards stock market are well documented by many researchers. There are many hypotheses issued by researcher such as, according to Gopinathan, R., & Durai, R.S. (2019) macroeconomic variables and stock market has a systematic effect on stock market returns. Stock market also will give the ability to access capital for company and investor if the stock market is good in providing support for economic development (Norehan, M.A.H., & Ridzuan, A.R., 2020).

Macroeconomics and stock market plays an important role in improving or maintaining the movement of economic of a country. Macroeconomics is a part of economics that accord with the performance, system, reaction, and decision making of the whole of economy. While, the stocks market is referred to as equity market or stock exchange and it is also a financial market. The stock market is the essential source of economic growth for every country. Stock market also referred to the activity of issuing, buying and selling stocks that are available and trade in a stock market (Norehan, M.A.H., & Ridzuan, A.R., 2020). The stock market also indicates the assumptions about economic health because stock market will show the will of the investor whether to buy or sell at a certain price level that will profitable them (Sahoo, A.P., Patnaik, D.B., & Satpathy, D.I., 2020).

In addition to that, stock market is sensitive securities to economy condition. For example, any changes in the stock market can have a detrimental or positive impact on the economy, and the causal link between the stock market and macroeconomic variables has been a hot issue in finance for decades. (Barakat, M. R., Elgazzar, S. H., & Hanafy, K. M., 2015).