AN EMPIRICAL STUDY OF FOREIGN EXCHANGE EXPOSURE

IN MALAYSIA LISTED COMPANIES

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by

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I declare that the substance of this project paper has never been submitted for any degree or post graduate programs and qualifications.

I certify that all the supports and assistance received in preparing this project paper and all the sources abstracted have been acknowledge in this stated project paper.

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ABSTRACT

This study constructs an analysis about foreign exchange exposure Malaysian companies were listed on Kuala Lumpur Stock Exchange during the period January 2000 to December 2010. This study extends the prior researches by investigating the effects of major determinants toward the foreign exchange exposure. This study reveals that company efficiency, size, asset tangibility, and growth opportunity do affect the foreign exchange exposure in Malaysia companies in general. However, the result comes up differently when those companies classified into their industry sectors. For Industrial Product sector, this study documents the evidence that financial leverage, efficiency, profitability, and size of the companies are significantly influence the foreign exchange exposure.
ABSTRAK

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CHAPTER ONE
INTRODUCTION

1.0 Background of the Study

As the world economy globalizes, fluctuation in foreign exchange rates can influence both domestic as well as, and especially, global companies. Variance in foreign exchange leads to the possibility of change in a company’s cash flow (Jacque, 1996). In general, companies are exposed to three types of foreign exchange risk: (1) transaction exposure refers to the affects of foreign exchange rate fluctuations on import and export contracts transacted in foreign currencies, (2) translation exposure occurs when foreign exchange rate changes impact the future value of invested resources in foreign subsidiaries, and (3) economic exposure is expressed as the percentage of variation in the economic value of a company resulting from a 1% change in the exchange rate (Jacque, 1996). In changing of the relative prices of domestic and foreign goods, fluctuations in foreign exchange rates directly influence the current and future expected cash flows of exporting and importing companies (Geczy, Minton, & Schrand, 1997).

In previous studies that investigated the nature of exposure to exchange rates found mixed result regarding foreign exchange rate exposure. Nonetheless, recent empirical evidence has demonstrated that many industries and corporations face significant exchange rate exposure. However, most of the estimated foreign exchange risks were exposures of multinational corporations. In general, it seems counter-intuitive for most managers, and even some economists that domestic
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REFERENCES


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