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**GRANGER-CAUSE EFFECT ON TRADING VOLUME AND STOCK RETURN
VOLATILITY: EVIDENCE FROM ACE MARKET MALAYSIA**



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**MASTER OF SCIENCE (FINANCE)
UNIVERSITI UTARA MALAYSIA**

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**GRANGER-CAUSE EFFECT ON TRADING VOLUME AND STOCK RETURN
VOLATILITY: EVIDENCE FROM MALAYSIAN ACE MARKET**



By:
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Thesis Submitted to
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**Pusat Pengajian Ekonomi,
Kewangan dan Perbankan**

SCHOOL OF ECONOMICS, FINANCE, AND BANKING

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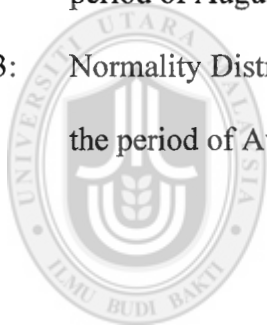
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LIST OF ABBREVIATIONS

R	Return
V	Volume
VAR	Vector Autoregressive
VECM	Vector Error Correction Model
VDC	Variance Decomposition
IRF	Impulse Response Function
EMH	Efficient Market Hypothesis



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ABSTRACT

This study analyzes the relationship between trading volume and stock return in Malaysian ACE market for the period of August, 2009 to December, 2015. Several tests were utilized; multivariate time series regression model; Brailsford model; VAR analysis, and; Granger-cause test. The empirical result proves a significant positive contemporaneous relationship between trading volume and stock return and *vice versa*. However, trading volume has negative significant relationship with stock return volatility, thus exhibits an asymmetry relationship between the variables. VAR analysis reveals that past trading volume has explanatory power in forecasting stock return and *vice versa*. And lastly, Granger-causality test indicates a significant bi-directional relationship between trading volume and stock return. Thus, it is proven that Malaysian ACE market is contradicted with the weak-form of efficient market hypothesis.

Keywords: trading volume, stock return, vector autoregressive model, Granger-causality test, Malaysian ACE market

ABSTRAK

Kajian ini menganalisa hubungan antara jumlah dagangan dan pulangan saham di pasaran ACE Malaysia bermula dari Ogos 2009 hingga Disember 2015. Beberapa ujian telah dijalankan diantaranya ialah model regresi siri masa multivariat; model Brailsford; analisis VAR, dan; ujian sebab-akibat Granger. Hasil empirikal membuktikan terdapat hubungan semasa yang positif dan signifikan antara jumlah dagangan dan pulangan saham dan sebaliknya. Walau bagaimanapun, jumlah dagangan mempunyai hubungan negatif yang signifikan dengan turun naik pulangan saham, sekali gus mempamerkan hubungan asimetri antara pembolehubah yang terlibat. Analisis VAR mendedahkan bahawa jumlah dagangan lalu mempunyai kuasa penjelasan dalam ramalan pulangan saham dan sebaliknya. Dan yang terakhir, ujian Granger sebab-akibat menunjukkan hubungan signifikan dua hala antara jumlah dagangan dan pulangan saham. Oleh itu, objektif pertama dan kedua telah dicapai. Oleh itu, terbukti bahawa pasaran ACE Malaysia adalah bercanggah dengan teori *weak-form* mengikut hipotesis pasaran cekap.

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Kata kunci: pulangan saham, jumlah dagangan, model autoregresif vektor, ujian Granger-sebab akibat, pasaran ACE Malaysia

CHAPTER ONE

INTRODUCTION

1.0 Introduction

Economists believe that eighty percent of stock markets would crash to strike in 2016 due to the slowdown in global economic, flatten in the earnings, collapse of commodities prices, and tighten in monetary policy by Federal Reserve (The Sovereign Investor, 2016, February 18). These are the critical indicators that express the stock markets in 2016 are anticipate to bearish. Rapidly growing emerging stock markets such as Malaysian stock market would be most largely impacted. Emerging stock markets associate with highly volatility stock return due to low stock market volume (Attari, Rafiq and Awan, 2012; Hseih, 2014). A study in developed versus emerging stock markets has revealed a negative relationship between predictable volume and stock return volatility in some emerging markets, which is related to the inefficiency in the markets (Girard and Biswas, 2007).

Stock price or stock return volatility refers to a drastic change (increase or decrease) in value by a given stock within a given period. The drastic change in stock price usually occurs due to an imbalance in trade volume for a particular stock. For example, a stock price will go up sharply when the stock is traded in large quantities (Mohamad and M.D Nassir, 1995), but if short selling is practiced

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