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**THE COMOVEMENT OF THE SELECTIVE ASEAN STOCK
MARKETS: IS THERE ANY IMPACT ON MALAYSIAN STOCK
MARKET?**

BY

NURUL EZZATI BINTI AHMAD YANI



UUM
Universiti Utara Malaysia

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ABSTRACT

This paper investigates the cointegration relationship in the monthly returns among five stock market indices of ASEAN countries namely FTSE Bursa Malaysia KLCI, Bangkok Stock Exchange of Thailand, Ho Chi Minh Stock Exchange, Jakarta Composite Index and Philippines Stock Exchange. The period of study is between January 2001 and December 2015. The Johansen-Juselius cointegration test and Vector Error Correction Model (VECM) are applied to examine the cointegration between Malaysian stock market index with the other four selected stock market indices. Findings indicate that there is cointegration relationship among the five selected ASEAN stock market indices. The VECM long run results show that the Bangkok Stock Exchange of Thailand has the highest influence on the FTSE Bursa Malaysia KLCI

Keywords: Stock market, Cointegration, VECM



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ABSTRAK

Kajian in mengkaji hubungan kointegrasi antara lima indeks saham di negara ASEAN iaitu FTSE Bursa Malaysia KLCI, Bursa Malaysia Bangkok, Thailand, Bursa Saham Ho Chi Minh, Jakarta Indek Komposit dan Bursa Saham Filipina dengan menggunakan pulangan bulanan. Tempoh masa ujian antara Januari 2001 dan Disember 2015. Ujian kointegrasi dan ujian Vector Error Correction Model (VECM) digunakan untuk memeriksa kointegrasi antara indeks saham Malaysia dengan empat indeks saham yang terpilih. Keputusan kajian menunjukkan ada hubungan kointegrasi antara lima indeks saham ASEAN yang terpilih. Keputusan ujian jangka panjang VECM menunjukkan Bursa Saham Bangkok, Thailand memberi pengaruh yang paling tinggi terhadap FTSE Bursa Malaysia KLCI.

Katakunci: Pasaran saham, kointegrasi, VECM



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LIST OF ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
FTSE	Financial Times Stock Exchange
KLSE	Kuala Lumpur Stock Exchange
KLCI	Kuala Lumpur Composite Index
IDX	Indonesia Stock Exchange
JCI	Jakarta Composite Index
SEC	Securities and Exchange Commission
FBMKLCI	FTSE Bursa Malaysia KLCI
BNGKSET	Stock Exchange of Thailand
HCMNVNE	Ho Chi Minh Stock Exchange
JAKCOMP	Jakarta Composite Index
PSECOMP	Philippine Stock Exchange
CAPM	Capital Asset Pricing Model
EMH	Efficiency Market Hypothesis
MPT	Modern Portfolio Theory
ADF	Augmented Dickey-Fuller
PP	Phillip-Perrons
VECM	Vector Error Correction Model
CUSUM	Cumulative Sum of Recursive Residuals Test
AIC	Akaike Information Criterion
SBIC	Schwarz' Bayesian Information Criterion

CHAPTER ONE

INTRODUCTION

1.0 Introduction

Financial market is an important part in finance. Financial market consists of capital markets and money market. The stock market is one of the elements under capital markets. Stock markets play a vital role in supporting the growth of the economy. The stock market indirectly provides a channel of gaining capital for companies. Besides, it also mobilizes saving for investment. In addition, stock market is creating investment opportunities for small investors and government capital-raising for the development of projects.

Stock price movement is one of the indications that can be used as to reflect; how good the stock market it is. Due to this indication, the policy makers are interested to know about the stock market behavior. According to Comincioli (1996), the stock price will reflect prospects for the future economy. He also stated a stock price is one of the indicators to explain what is really happen to the economy. Moreover, Pettinger (2015) stated that fall of stock prices would lead to the economic distraction.

Stock price movement is affected by many factors includes political issues and global issues. For example, the moment of terrorist attack in Sept 2001 in the Unites States (US) gives a huge impact on their stock markets. During that time, stock market was very risky. The price of stocks was very volatile. Therefore, anything happens in a country either related to a political issue or social issues will directly affect the stock market. Basically, the volatility of stock market will influence the cost of capital, investment

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