The copyright © of this thesis belongs to its rightful author and/or other copyright owner. Copies can be accessed and downloaded for non-commercial or learning purposes without any charge and permission. The thesis cannot be reproduced or quoted as a whole without the permission from its rightful owner. No alteration or changes in format is allowed without permission from its rightful owner.
THE EFFECT OF MACROECONOMIC VARIABLES TOWARDS MALAYSIA STOCK MARKET PRICE

AHMAD SUFIAN BIN ABDULLAH

MASTER OF SCIENCE FINANCE
UNIVERSITI UTARA MALAYSIA
2017
THE EFFECT OF MACROECONOMIC VARIABLES TOWARDS MALAYSIA STOCK MARKET PRICE

AHMAD SUFIAN BIN ABDULLAH

THESIS SUBMITTED TO SCHOOL OF ECONOMIC, FINANCE AND BANKING, UNIVERSITI UTARA MALAYSIA, IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE MASTER OF SCIENCES (FINANCE)
PERAKUAN KERJA KERTAS PENYELIDIKAN
(Certification of Research Paper)

Saya, mengaku bertandatangan, memperakukan bahawa
(I, the undersigned, certified that)

AHMAD SUFIAN BIN ABDULLAH (820221)

Calon untuk ijazah Sarjana
(Candidate for the degree of)

MASTER OF SCIENCE (FINANCE)

telah mengemukakan kertas penyelidikan yang bertajuk
(has presented his/her research paper of the following title)

THE EFFECT OF MACROECONOMIC VARIABLES TOWARDS MALAYSIA STOCK MARKET PRICE

Seperti yang tercatat di muka surat tajuk dan kulit kertas penyelidikan
(as it appears on the title page and front cover of the research paper)

Bahawa kertas penyelidikan tersebut boleh diterima dari segi bentuk serta kandungan dan meliputi bidang ilmu
dengan memuaskan.
(that the research paper acceptable in the form and content and that a satisfactory knowledge of the field is covered
by the dissertation).

Nama Penyelia
(Name of Supervisor) : Dr. Norzalina Ahmad

Tandatangan
(Signature) : 

Tanggal
(Date) : 15 Jun 2017
Permission to Use

In presenting this dissertation/ project paper in partial fulfilment of the requirements for a Post Graduate degree from Universiti Utara Malaysia (UUM), I agree that the library of this university may make it freely available for inception. I further agree that copying of this dissertation/ project paper in any manner is permitted, in whole or in part, for scholarly purpose may be granted by my supervisor(s) or in their absence, by the Dean of School of Economic, Finance and Banking where I did my dissertation/ project paper. Any activities related to this dissertation/ project paper in whole or in part, for financial gain shall not be allowed without my written consent. It is also understood that due recognition shall be given to me and to the UUM in any scholarly use which may be made of any material in my dissertation/ project paper. Requests for permission to copy or to make other use of materials in this thesis, in whole or in part should be addressed to:

Dean of School of Economic, Finance and Banking,
Universiti Utara Malaysia
06010 Sintok
Kedah Darul Aman
Abstract

The purpose of the study is to find the macroeconomic variables factors that can affect the Malaysia stock market price. This study used the time series data for the variables including stock market price (KLCI), inflation rate, exchange rate, money supply (M2) and unemployment rate. By using the multiple regressions analysis model the finding shows all macroeconomic variables are significantly influenced Malaysia stock market price (KLCI) including unemployment rate. Besides the macroeconomic factor like money supply, exchange rate and inflation rate, unemployment rate as a new variable been tested to know the impact towards stock market price. However based on the results from the regression analysis shows only money supply (M2) has the positive influences towards Malaysia stock market price.

Keywords : money supply (M2); inflation rate; exchange rate; unemployment rate; FBM KLCI.
Abstrak

Kajian ini bertujuan untuk mengkaji faktor-faktor makroekonomi yang boleh memberi kesan kepada harga pasaran saham di Malaysia. Kajian ini menggunakan data siri masa untuk pembolehubah termasuk harga pasaran saham (KLCI), kadar inflasi, kadar pertukaran matawang, bekalan wang (M2) dan kadar pengangguran. Dengan menggunakan model regresi linear berganda menunjukkan semua pembolehubah makroekonomi mempengaruhi harga pasaran saham Malaysia (KLCI) termasuk kadar pengangguran. Selain faktor makroekonomi seperti bekalan wang, kadar pertukaran dan kadar inflasi, kadar pengangguran sebagai pembolehubah baru telah diuji untuk mengetahui kesan terhadap harga pasaran saham. Walau bagaimanapun berdasarkan keputusan daripada analisis regresi menunjukkan hanya bekalan wang (M2) mempunyai pengaruh positif terhadap harga pasaran saham Malaysia.

Katakunci: Bekalan wang (M2); kadar inflasi; kadar pertukaran matawang; kadar pengangguran; FBM KLCI
Acknowledgement

First of all, I am grateful to The Almighty Allah S.W.T for gives me the strength and good health on finishing the study. Without bless from The Almighty my research might be not finish properly. I am also thankful to Allah S.W.T in keeping my determination towards the research while I wanting to give up.

I acknowledge, with gratitude, my supervisor to Dr. Norzalina Binti Ahmad for her extra effort in keeping me in line towards the research objective and findings. Advices and encouragement from her had made the pleasure way on finishing the best research.

Lastly, sincerely, thankful to all individual that’s contribute directly and indirectly in giving me the advice and guide me to complete this research especially to my parents, lecturers and friends that assist me in term of moral and knowledge support.
### Table of Contents

Permission to Use .................................................................................................................... i  
Abstract ................................................................................................................................... ii  
Acknowledgement ................................................................................................................ iv  
Table of Contents .................................................................................................................. v  
List of Tables ........................................................................................................................ viii  
List of Figures ....................................................................................................................... ix  
List of Appendices ................................................................................................................ x  
List of Abbreviations ............................................................................................................. xi  

**CHAPTER ONE INTRODUCTION ................................................................. 12**

1.1 Introduction ................................................................................................................... 12  
1.2 Background Study ...................................................................................................... 12  
1.3 Problem Statements .................................................................................................. 16  
1.4 Research Questions ................................................................................................... 20  
  1.4.1 Main Research Question ................................................................................... 20  
  1.4.2 Specific Research Questions .......................................................................... 20  
1.5 Research Objectives ................................................................................................. 21  
  1.5.1 Main Research Objective .............................................................................. 21  
  1.5.2 Specific Research Objectives ....................................................................... 21  
1.6 Significance of Study ............................................................................................... 22  
1.7 Organization of Study ............................................................................................... 22  
1.8 Summary .................................................................................................................... 23  

**CHAPTER TWO LITERATURE REVIEW ................................................ 24**

2.1 Introduction .................................................................................................................. 24  
2.2 Underlying Theory .................................................................................................... 24  
  2.2.1 Arbitrage Pricing Theory .............................................................................. 24  
2.3 Independent variables ............................................................................................... 25  
  2.3.1 Unemployment Rate ...................................................................................... 25  
  2.3.2 Money Supply (M2) ....................................................................................... 27  
  2.3.3 Exchange Rate (EXR) .................................................................................... 29
2.3.4 Inflation Rate .................................................................32
2.4 Conclusion ........................................................................34

CHAPTER THREE METHODOLOGY ..............................................35
3.1 Introduction .......................................................................35
3.2 Data Collection ..................................................................35
3.3 Variables ...........................................................................36
  3.3.1 Dependent Variable .......................................................36
  3.3.2 Independent Variable ....................................................37
3.4 Research Design ...............................................................39
  3.4.1 Purpose of the study ......................................................39
  3.4.2 Types of Investigation ..................................................39
  3.4.3 Time Horizon ...............................................................40
3.5 Theoretical Framework ....................................................41
3.6 Hypothesis ..........................................................................41
3.7 Data Treatment and Methodology .......................................43
  3.7.1 Correlation analysis ......................................................43
  3.7.2 Multicollinearity test .....................................................43
  3.7.3 F-test ...........................................................................44
  3.7.4 T-test ...........................................................................44
  3.7.5 Test of Assumption ......................................................45
  3.7.6 Coefficient (β) .............................................................47
  3.7.7 Measure of Fit (R-Square, R²) ......................................47
  3.7.8 Adjusted R² .................................................................47
3.8 Summary ..............................................................................48

CHAPTER FOUR DATA ANALYSIS AND FINDINGS ....................49
4.1 Introduction .........................................................................49
4.2 Descriptive Analysis ..........................................................50
4.3 Multicollinearity Test ..........................................................51
4.4 Correlation Analysis ...........................................................52
4.5 Regressions Analysis ..........................................................53
  4.5.1 Explanation of Coefficient of Determination (R²) ............54
List of Tables

Table 4.1: Descriptive statistics ................................................................. 50
Table 4.2: Multicollinearity Test ................................................................. 52
Table 4.3: Correlation Matrix Summary .................................................... 53
Table 4.4: Regression Analysis ................................................................. 54
Table 4.5: Regression Analysis (Dummy Variable) ................................. 62
Table 4.6: Summary of Hypothesis Test Results ..................................... 63
List of Figures

Figure 1.1 Malaysia Stock Market (FTSE KLCI) Index 21 years performance Source: 
DataStream (March 2017)........................................................................................................ 14
Figure 3.1 Theoretical framework of Study................................................................................ 41
List of Appendices

Appendix A: Descriptive Analysis.................................................................73
Appendix B: Regression Analysis...............................................................74
Appendix C: Regression Analysis (Dummy Variable).................................75
List of Abbreviations

KLCI = Kuala Lumpur Composite Index
M2 = Money Supply
US = United States
INF = Inflation
EXR = Exchange rate
RM = Ringgit Malaysia
USD = United States Dollar
UNEMP = Unemployment rate
CHAPTER ONE
INTRODUCTION

1.1 Introduction
Chapter one for this research include the background of study, problem statement, research questions, research objectives and also the significance of study. All of sub chapter in this segment give the initial perspectives of this research. This study is conducted to examine the impact of exchange rate, inflation rate, money supply and unemployment rate towards the stock market price in Malaysia. Malaysian stock market price that being measured in this study from FTSE Bursa Malaysia KLCI (FBM KLCI).

1.2 Background Study
Stock market plays important role to the economy especially in the businesses with access to capital and investors with the chance or opportunities for capital gains. According to the research by Levina and Zervos (1996) shows the stock market contributes significantly to the economic growth. Since the stock market prices are subject to increase and decrease, it becomes necessary to know the factors influencing the stock prices.

Khan and Yousuf (2013) mentioned many reasons to be an interest to know the factors that influence the stock price. First is the investor’s perspective to help them to forecast stock price accurately in the case of making the decisions regarding their maximum gains in stock portfolio. Secondly is for businesses, which use the stock price as the indicator to show the financial image of companies to make them easier
The contents of the thesis is for internal user only
REFERENCES


## Appendix A

### Descriptive Analysis

<table>
<thead>
<tr>
<th>Statistics</th>
<th>UNEMP</th>
<th>MONEYSUP</th>
<th>EXCHA</th>
<th>INFLA</th>
<th>KLCI</th>
</tr>
</thead>
<tbody>
<tr>
<td>N Valid</td>
<td>72</td>
<td>72</td>
<td>72</td>
<td>72</td>
<td>72</td>
</tr>
<tr>
<td>Missing</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Mean</td>
<td>3.3222</td>
<td>5.8278</td>
<td>3.5617</td>
<td>2.4513</td>
<td>-0012</td>
</tr>
<tr>
<td>Median</td>
<td>3.3000</td>
<td>5.8553</td>
<td>3.6507</td>
<td>2.1000</td>
<td>-0008</td>
</tr>
<tr>
<td>Mode</td>
<td>3.0000</td>
<td>5.4508</td>
<td>3.6000</td>
<td>1.0000</td>
<td>.0019</td>
</tr>
<tr>
<td>St. Deviation</td>
<td>.3525</td>
<td>.2493</td>
<td>.3331</td>
<td>1.6465</td>
<td>.0751</td>
</tr>
<tr>
<td>Variance</td>
<td>.124</td>
<td>.062</td>
<td>.111</td>
<td>2.711</td>
<td>.006</td>
</tr>
<tr>
<td>Minimum</td>
<td>2.7000</td>
<td>5.4503</td>
<td>2.9555</td>
<td>-2.4000</td>
<td>-3199</td>
</tr>
<tr>
<td>Maximum</td>
<td>4.5000</td>
<td>6.1964</td>
<td>4.5450</td>
<td>8.5000</td>
<td>.3084</td>
</tr>
</tbody>
</table>

*a. Multiple modes exist. The smallest value is shown.*
Appendix B

Regression Analysis

Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.949&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.900</td>
<td>.895</td>
<td>.0575902199</td>
</tr>
</tbody>
</table>

<sup>a</sup> Predictors: (Constant), INFLA, MONEYSUP, UNEMP, EXCHA  
<sup>b</sup> Dependent Variable: KLCI

ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regression</td>
<td>2.011</td>
<td>4</td>
<td>.503</td>
<td>151.552</td>
<td>.000&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>Residual</td>
<td>.222</td>
<td>67</td>
<td>.003</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2.233</td>
<td>71</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<sup>a</sup> Dependent Variable: KLCI  
<sup>b</sup> Predictors: (Constant), INFLA, MONEYSUP, UNEMP, EXCHA

Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>1</th>
<th>Sig.</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
<td>Tolerance</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>222</td>
<td>337</td>
<td>.656</td>
<td>.513</td>
</tr>
<tr>
<td></td>
<td>UNEMP</td>
<td>-.058</td>
<td>021</td>
<td>-.135</td>
<td>-3.249</td>
</tr>
<tr>
<td></td>
<td>MONEYSUP</td>
<td>.562</td>
<td>041</td>
<td>.790</td>
<td>13.845</td>
</tr>
<tr>
<td></td>
<td>EXCHA</td>
<td>-.059</td>
<td>030</td>
<td>-.112</td>
<td>-2.009</td>
</tr>
<tr>
<td></td>
<td>INFLA</td>
<td>-.019</td>
<td>004</td>
<td>-.175</td>
<td>-4.504</td>
</tr>
</tbody>
</table>

<sup>a</sup> Dependent Variable: KLCI
Appendix C

Regression Analysis (Dummy Variable)

Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.951a</td>
<td>.905</td>
<td>.896</td>
<td>.0571852960</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), crisis2, crisis1, UNEMP, INFLA, EXCHA, MONEYSUP

ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Regression</td>
<td>2.020</td>
<td>6</td>
<td>.337</td>
<td>102.962</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>.213</td>
<td>65</td>
<td>.003</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2.233</td>
<td>71</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: KLCI
b. Predictors: (Constant), crisis2, crisis1, UNEMP, INFLA, EXCHA, MONEYSUP

Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Tolerance</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td></td>
<td></td>
<td></td>
<td>.197</td>
</tr>
<tr>
<td></td>
<td>UNEMP</td>
<td>-.061</td>
<td>-.121</td>
<td>-2.789</td>
<td>.007</td>
</tr>
<tr>
<td></td>
<td>MONEYSUP</td>
<td>.564</td>
<td>.793</td>
<td>12.688</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>EXCHA</td>
<td>-.061</td>
<td>-.115</td>
<td>-2.082</td>
<td>.041</td>
</tr>
<tr>
<td></td>
<td>INFLA</td>
<td>-.017</td>
<td>-.155</td>
<td>-3.659</td>
<td>.001</td>
</tr>
<tr>
<td></td>
<td>crisis1</td>
<td>-.014</td>
<td>-.025</td>
<td>-5.13</td>
<td>.609</td>
</tr>
<tr>
<td></td>
<td>crisis2</td>
<td>-.038</td>
<td>-.068</td>
<td>-1.667</td>
<td>.100</td>
</tr>
</tbody>
</table>

a. Dependent Variable: KLCI