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**THE IMPACT OF ECONOMIC SHOCKS ON STOCK  
RETURN AND TRADING VOLUME RELATIONSHIP**



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**By**

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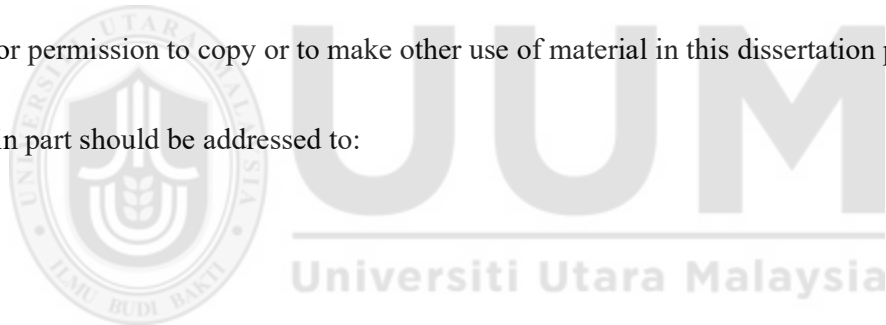
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## ABSTRACT

This study analyzed the relationship between trading volume and stock return in the Main Market of Bursa Malaysia from April 2009 to October 2018, and ACE market from April 2000 to October 2018. The relationship was then re-examined surrounding four exogenous shocks in macro events. The first two shocks, standardization of lot size, and the global financial crisis were only applicable to the Main Market only while two other shocks, the oil price shock, and the 14<sup>th</sup> Malaysian general election were applicable to both market. Granger-causality test showed a significant bidirectional relationship between trading volume and stock return. Results of the ordinary least squares (OLS) further revealed that there was a positive and significant relationship between trading volume and stock return. This positive relationship is consistent with the sequential arrival of information model and the mixture of distribution hypothesis model (MDH). The positive relationship generally was held for the period before and after the economic shocks related to the standardization of lot size, the global financial crisis, and the oil price shock. The stock return-volume relationship was, however, significantly weaker during the global financial period and became insignificant during the 14<sup>th</sup> Malaysia general election in the Main Market. The findings of a weaker stock return-trading volume relationship are consistent with the MDH. Overall, the significant positive stock return-volume relationship for the overall and subsamples of economic shock events implied that when the investors observed an increase in the trading volume, they start to invest in the stock as the stock returns also increased due to the positive stock return-volume relationship. The stock return-volume relationship can help in the investor's investment decisions.

Keywords: Trading Volume, Stock Return, Granger-Causality Test, Regression Test, Macro Events

## ABSTRAK

Kajian ini menganalisa hubungan antara volum dagangan dan pulangan saham di Pasaran Utama Bursa Malaysia dari April 2009 hingga Oktober 2018, dan pasaran ACE dari April 2000 hingga Oktober 2018. Hubungan tersebut kemudian diperiksa semula sekitar empat kejutan eksogen dalam peristiwa makro. Dua kejutan pertama, piawaian saiz lot, dan krisis kewangan global hanya terpakai untuk Pasaran Utama sahaja manakala dua kejutan lain, kejutan harga minyak dan pilihan raya umum ke-14 Malaysia terpakai bagi kedua-dua pasaran. Ujian causality-Granger menunjukkan hubungan bidirectional yang signifikan antara jumlah dagangan dan pulangan saham. Hasil kuadrat paling biasa (OLS) selanjutnya menunjukkan bahawa terdapat hubungan positif dan signifikan antara jumlah dagangan dan pulangan saham. Hubungan positif ini selaras dengan ketibaan model maklumat ketibaan dan campuran model hipotesis pengedaran (MDH). Hubungan positif umumnya diadakan untuk tempoh sebelum dan selepas kejutan ekonomi yang berkaitan dengan standardisasi saiz lot, krisis kewangan global, dan kejutan harga minyak. Walau bagaimanapun, hubungan volum pulangan saham adalah ketara lemah semasa tempoh kewangan global dan menjadi tidak penting semasa pilihan raya umum ke-14 di Pasaran Utama. Penemuan hubungan volum dagangan volum yang lemah adalah konsisten dengan MDH. Secara keseluruhan, perhubungan volum semula volum positif yang signifikan untuk keseluruhan dan subsimpel peristiwa kejutan ekonomi tersirat bahawa apabila pelabur melihat peningkatan dalam jumlah dagangan, mereka mula melabur dalam stok kerana pulangan saham juga meningkat disebabkan oleh saham positif perhubungan balik-volum. Hubungan jumlah pulangan saham dapat membantu dalam keputusan pelaburan pelabur.

Kata kunci: Jumlah Dagangan, Pulangan Saham, Ujian Kausaliti Granger, Ujian Regresi, Peristiwa Makro

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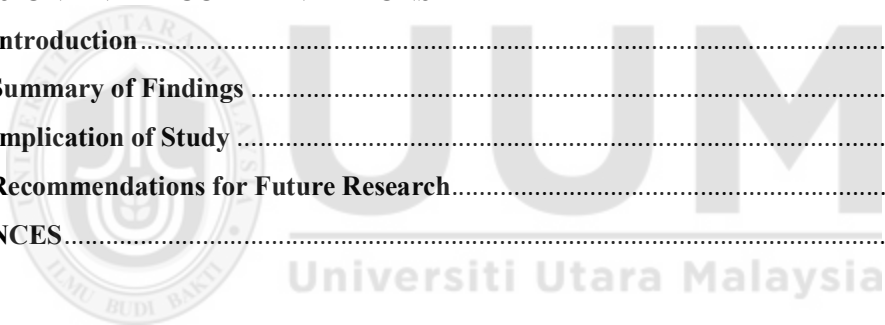
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## CHAPTER 1

### INTRODUCTION

#### 1.0 Background of the Study

Price-volume is a well-researched topic in finance. According to Karpoff (1987), there are mainly three reasons as to why a comprehensive understanding of this relationship matter. Firstly, the relationship can enhance our understanding of the structure of financial markets. For example, the price-volume relationship can be explained by the type of investors in the market which will lead to changes in the relationship between trading volume and stock price. The financial market is made up of a mixture of optimists and pessimists who directly affect stock price-volume relationship. Secondly, the relationship will help in event studies to outline the implications of these event studies. The speculator will also benefit from this study as they will know how the window selection in the event study will affect their decision to buy or sell stock. Furthermore, data from the price-volume relationship can be applied to event studies to calculate the changes in the variance of the price process either during the event or pre- and post-event. Lastly, the price-volume relationship can be support in the futures market where the changes in price is expected to have an effect on the trading volume in the futures market. This depends on the issue of the stabilization factor on future prices in speculation. The futures market is similar to the stock market in many aspects, for example, there is also private and public information in the futures market and expected to be the same relationship between price and trading volume as in the stock market. Tauchen & Pitts (1983) examined the price-volume relationship in the Chicago futures market and obtained similar to as positive price-volume relationship as shown in stocks. Kayali and Akarim (2010) examined the price-volume relationship in the Turkish Derivatives Exchange and the results showed a unilateral causality relationship running from trading volume to return. In addition, the study by Chen, Firth and

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