

**SPECULATIVE INFLUENCES IN STOCK MARKET:
A CASE STUDY OF KUALA LUMPUR STOCK EXCHANGE**

A thesis submitted to the Graduate School in partial
fulfillment of the requirement for the degree
Master of Economics
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by
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ABSTRACT

The purpose of this paper is to analyze the existence of speculative influences in Malaysia stock market by utilizing quarterly time series data from first quarter of 1990 until fourth quarter of 1999. Models are reapply in order to test (i) the extent excess volatility in KLSE (ii) to determine the relationship between stock market and the real economy (iii) to examine whether the price of the stocks are based on their intrinsic values. The results indicate that excess volatility in the actual price of stocks does exist, specially during the boom period. The prices are found to be volatile at 1 or 2 times than the ex post rational price. It is also shown that the weak form of rational expectation hypothesis is satisfied. Regression of stock prices on measures of the real economic activity over the same period indicate that there is no evidence that the stock return could have been driven by expectation of real activity in the economy during the whole period. The relation is weak, suggesting that the production and GDP growth are not significant in explaining variations in stock return. With regards to the test of existence of intrinsic bubbles, the results indicate that intrinsic bubbles do occur in Malaysia stock market.

ABSTRAK

Kajian ini bertujuan untuk menganalisis pengaruh aktiviti speculasi ke atas pasaran saham Malaysia dengan menggunakan data siri masa dari suku pertama 1990 sehingga suku keempat 1999. Beberapa model diaplikasikan semula ke atas pasaran saham bertujuan untuk mengukur (i) lebihan kemeruapan yang wujud di dalam BSKL, (ii) menentukan hubungan diantara pasaran saham dan ekonomi benar negara dan (iii) mengukur sama ada harga-harga saham pasaran berdasarkan nilai intrinsic atau tidak. Hasil kajian menunjukkan bahawa wujudnya lebihan kemeruapan dalam harga sebenar saham, terutama ketika ekonomi mengembang. Harga di dapati meruap sekitar 1 atau 2 kali lebih dari harga rasional *ex-post*. Ini mengesahkan bahawa BSKL berada dalam hipotesis pasaran cekap yang lemah. Regresi ke atas harga saham bertujuan untuk mengukur pengaruh aktiviti ekonomi benar dalam tempoh yang sama menunjukkan bahawa tiada bukti bahawa pulangan saham adalah disebabkan oleh jangkaan aktiviti ekonomi benar dalam ekonomi sebenar bagi tempoh yang sama. Hubungan yang lemah menunjukkan bahawa pengeluaran perindustrian dan kadar pertumbuhan KDNK adalah tidak signifikan dalam menerangkan variasi pulangan saham. Kajian ke atas ‘intrinsic bubbles’ menunjukkan bahawa situasi ini wujud di dalam pasaran saham Malaysia.

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CHAPTER 1

INTRODUCTION

1.0 GENERAL DESCRIPTION

Stock market¹ represents the well being of the economy, a leading economic indicator and predictor of the performance of the aggregate economy due to their ability to fall before recession and rise before the economy recovered. (Othman, 1993; Annuar and Shamser, 1993; Koh and Goh, 1995; KLSE, 1991)

Theoretically, stock market function is to encourage the accumulation of capital, to allocate the existing supplies of capital to their most valuable uses, to facilitate and encourage capital accumulation by channeling short-term savings into long-term investment and last but not least, to allocate the limitation supplies of capital to the most valued social uses. Participations will receive profit either in term of dividend or capital gain.

¹ Stock market is a place where securities (such as shares, debt instruments, derivatives, and other financial instruments) are bought and sold by investors. Today stock market traded using the computerize trading and make the world moving toward a capital-driven economic system.

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