

**THE EFFECT OF INVESTMENT REGULATORY CHANGES
ON STOCK PRICES AND TRADING VOLUMES:**

Evidence from Iraq Stock Exchange

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**MASTER OF SCIENCE
UNIVERSITI UTARA MALAYSIA
December 2014**

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Evidence from Iraq Stock Exchange

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**Thesis Submitted to
Othman Yeop Abdullah Graduate School of Business
Universiti Utara Malaysia
In Fulfilment of the Requirement for the Degree of Master of Banking**

DECLARATION

I declare that the substance of this project paper has never been submitted for any degree or postgraduate program and qualifications.

I certify that all the support and assistance received in preparing this project paper and the entire source abstracted have been acknowledged in this stated project paper.

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ABSTRAK

Kajian ini mengkaji kesan perubahan dalam peraturan pelaburan dengan mengukur perbezaan dalam harga saham dan volum dagangan sebelum dan selepas perubahan peraturan pelaburan tersebut pada Ogos 2007 di Bursa Saham Iraq. Penyelidikan ini juga memeriksa hubungan diantara dua faktor ekonomi (KDK dan kadar inflasi) dengan harga saham dan volum dagangan. Kajian ini menggunakan data dari pada 10 syarikat kewangan dalam bentuk data bulanan sebanyak 30 bulan sepanjang tahun 2006 – 2008. Kajian ini menggunakan market model untuk mengkaji reaksi pelabur terhadap pengumuman dan pelaksanaan perubahan peraturan dan SPSS bagi menyediakan Analisa Deskriptif, Korelasi Pearson and T-Test kepada pengubah – pengubah yang di uji.

Hasil kajian menunjukkan harga saham bergerak lebih tinggi selepas regulasi baru tersebut di implementasikan dalam bulan Ogos 2007, dimana pelabur – pelabur asing di beri kebenaran untuk melabur dalam syarikat – syarikat di Iraq. Pulangan luar biasa terkumpul ialah 5 peratus. Kenaikan dalam harga saham di Bursa Iraq menunjukkan bahawa pelabur – pelabur menyambut baik perubahan ini. Selain dari itu, volum dagangan dan kedudukan pasaran permodalan telah didominasi oleh stok – stok perbankan di antara syarikat – syarikat kewangan tersebut. KDK mempunyai hubungan korelasi yang signifikan dengan pulangan luar biasa terkumpul. Syarikat – syarikat kewangan di kategorikan kepada kumpulan berprestasi rendah dan kumpulan berprestasi tinggi (berdasarkan purata pulangan luar biasa 3.3%). Hasil ujian T-test menunjukkan wujud perbezaan yang signifikan diantara kedua kumpulan tersebut dalam respon mereka kepada perubahan regulasi tersebut.

Kata Kunci : Regulasi Pelaburan, Harga saham dan kajian Peristiwa.

ABSTRACT

This study investigates the effect of investment regulatory changes by examining the difference in stock prices and trading volume before and after the changes in the investment regulations in Iraq stock exchange in August 2007. It also examines the relationship between two economic factors (namely GDP and Inflation Rate) with stock prices and trading volume. This study utilizes data from 10 financial companies with 30 monthly observations covering the years 2006-2008. The current study employs market model to assess the investors' reaction to the announcement and implementation of regulatory changes; and SSPS to provide descriptive analysis, Pearson correlation and T-Test for the examined variables.

The results indicate that the stock prices moved towards a higher price after the regulation changes were implemented in August 2007 in which allow foreign investors to invest in Iraqi stocks. Their cumulative abnormal return is 5 percent. The increase in the prices of stocks in the Iraqi stock market after the implementation of the regulation indicated investors favour the new regulation. In addition, the trading volume and market capitalization ranking were dominated by the banking stocks among the selected financial companies. GDP and inflation is significantly and negatively correlated to CPI and CAR respectively. The companies were categorized between under-performed group and outperformed group (relative to AAR of 3.43 percent). The t-test indicates that there is a significant difference between the two types of the companies in their response to the regulatory change.

Keyword: Investment Regulations, Stock Price and Event study.

ACKNOWLEDGEMENT

This thesis is completed with the help of Allah (S.W.T) and the support of many people. Firstly, I give thanks to Allah, the Lord of the universe, who in His infinite mercy and grace, sets my affairs right and made the completion of this thesis a reality. I wish to express my profound gratitude to my reliable supervisor, Prof. Dr. Nor Hayati binti Ahmad for her inspiration and motivation in ensuring that a standard was accomplished for this thesis. Her inspiration, tolerance, advices, understanding and encouragement cannot be quantified. This indeed made my work a great learning experience; surely you will remain in my memory.

I am also grateful to my family members, especially my brother Dr. Shivan for his encouragement, endurance and guidance during the course of this project; then to my mother Hawee Khan and my siblings, Dr. Sabah, Dr. Salah, Reber, Salih and Jiyan for their encouragements and support towards the achievement of this thesis and my study. I pray that Allah protect and guide them through all their endeavors.

I also use this medium to appreciate the support and advice of all my friends who have contributed in one way or the other towards the success of this study. I pray that Allah reward them abundantly.

Mohammed Ahmed Mohammed

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LIST OF ABBREVIATIONS

- ISX: IRAQ STOCK EXCHANGE
- GDP: GROSS DOMESTIC PRODUCT
- CPI: CONSUMER PRICE INDEX
- P: STOCK PRICE
- TV: TRADING VOLUME
- MC: MARKET CAPITALIZATION
- MM: MARKET MODEL
- MET: MARKET EFFICIENCY THEORY
- ISM: IRAQ STOCK MARKET
- ID: IRAQI DINAR
- CAR: CUMULATIVE ABNORMAL RETURN
- AAR: AVERAGE ABNORMAL RETURN

CHAPTER ONE

1.1 INTRODUCTION

The foreign investment portfolio is one of the important developments in international financial markets in Iraq over the past decade. The role of foreign portfolio investments has been growing as a conduit for international capital flows to developing countries. The increasing flows of investment in securities from industrialized countries to emerging markets were made possible by a number of developments in all the countries involved.

Regulation is regarded as the rules enforced by the government, which limit the activities of economic agents usually by imposing standards (Crafts, 2006). Market failures can be corrected through these rules by acting to decrease negative externalities cost or information imperfections through the provision of public goods or insurance. Regulations are most conversant in the areas of planning restrictions, licensing businesses, environmental protection, health and safety, and employment. The effectiveness and efficiency of regulation rest on enforcement and legislation (Crafts, 2006).

Many countries still did not fully open to foreign portfolio investment because of the economic policy of that countries such as China. These economic policies will have an effect on the companies in general. China's securities regulation allows certain foreign investors to exceed the country's 5% cap on indirect investment in local securities companies (Market Watch 2011). This indicates strategy to achieving liberalization of the tightly controlled economy. Foreign investors can exceed the maximum 5% if they have a

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