

**THE CONTAGION EFFECT OF THE 2007 GLOBAL FINANCIAL CRISIS
ON THE MALAYSIAN STOCK MARKET**

GAWI MOHAMED KHALIFA ADAM

**OTHMAN YEOP ABDULLAH GRADUATE SCHOOL OF BUSINESS
UNIVERSITI UTARA MALAYSIA**

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ON THE MALAYSIAN STOCK MARKET**

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GAWI MOHAMED KHALIFA ADAM

OTHMAN YEOP ABDULLAH GRADUATE SCHOOL OF BUSINESS

UNIVERSITI UTARA MALAYSIA

2012



Othman Yeop Abdullah
Graduate School of Business

Universiti Utara Malaysia

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Tandatangan : 
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UUM College of Business
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06010UUM Sintok
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DEDICATION

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ABSTRACT

This paper is an investigation on the impact of the 2007/2008 global financial crisis and foreign exchange rate on the stock market of Malaysia, in two sub periods namely, pre crisis (January 2002 till June 2007) and during crisis (July, 2007 till December 2010). The findings showed that the stock market returns in US and Malaysia were depressed during the period of crisis. The correlation coefficient was strongly significant during the period of the crisis. In addition, multiple regression analysis provided evidence that contagion effect existed to the Malaysian stock market during the US financial crisis, however the foreign exchange rate was not significant during the said financial crisis.

Keywords: Financial crisis, contagion, stock market, Forex

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

This chapter provides a general introduction of the study. It is divided into five parts consisting of background of the study, problem statement, research questions, research objectives, significance of the study and scope and limitations of the study.

1.2 Background of the Study

The global financial crisis started in 2007 in the U.S. It began in real estate mortgages; the credit crises arose due to the careless darting in granting facilities and exaggerated estimated value of the mortgaged real estate providing borrowers with guaranteed loans. As a consequence, this led to the disability of many borrowers to repay their debts (Al-Zeer, Al-Khateeb & Areiqat, 2010).

The crisis has not only been affecting the financial markets and the economy of the U.S.A, but it has also spread over the other countries' financial markets worldwide, with no exception to the emerging financial markets. For example, from July 25, 2007 until December 31, 2008, the global financial crisis has severely affected the U.S. stock market as indicated by a decline in the S&P500 index by 40.50 percent. Other stock markets in the advanced and emerging economies have also been affected such as the FTSE100 index of the UK stock market which plunged by 31.30 percent, Nikkei225 index of Japan fell by 50.39 percent, KLSE index of Malaysia decreased by 36.45 percent and Jakarta composite index (JCI) of Indonesia declined by 43.39 percent in the corresponding period (Bloomberg Database, 2008).

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