

Cointegration Between Macroeconomic Variables and Sectoral Indices Movement in Bursa Malaysia

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Abstract

This paper examines the cointegration between sectoral indices in Bursa Malaysia and the selected macroeconomic variables, namely, oil price (OP), gold price (GP), and exchange rate (ER), during the period 1995-2014. The underlying series are tested by using Unit Root Test, Johansen Cointegration, Vector Error Correction Model (VECM) and Vector Autoregression (VAR). The results indicate that sectoral indices, specifically in technology sector, have long run cointegration with macroeconomic variable as resulted from the analysis of Johansen-Juselius (1990), Multivariate Cointegration and Vector Error Correction Model. Meanwhile, the short run cointegration between macroeconomic variable and several sectoral indices have also been observed in Bursa Malaysia.

Keywords: Vector Error Correction Model; Vector Autoregression Model; Macroeconomic Variable; Sectoral Indices

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