

DETERMINANTS OF SHARE PRICE FLUCTUATION: EVIDENCE FROM THE MANUFACTURING INDUSTRY IN MALAYSIA

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Abstract

A number of researches have been undertaken to identify the factors influencing stock prices in different stock markets. The existing literature strongly supports that the stock price movement mainly influenced by both firm - specific and macroeconomic variables. That is to examine the correlations and impacts of the firm - specific variables and macroeconomic variables on share price of manufacturing industry in the Malaysian stock market. As for analysis purpose, we have referred to financial report covering 30 manufacturing companies for data extraction and time framework involved are from 2011 to 2015. Quantitative result shows that two of the firm specific variables, namely (i) earnings per share and (ii) dividend per share are significantly related to share price but however, the rest of the variables including the macroeconomic variables are insignificant. This research enriches the existing literature that is available in the context of manufacturing industry in Malaysian stock market.

Keywords: *Firm Specific Variables, Macroeconomic Variables, Share Price, Manufacturing Industry*

Introduction

Stock market plays a significant role in the country's economic growth. In general, stock market consists of numerous transactions in a network where securities such as shares are traded at a specific price. However, stock market is all about dynamics and this is one of the reasons why fund managers and investors often confront with the problem of accurately forecasting stock prices to earn decent returns. Share investment offers the liquidity benefit as well as the opportunity to beat the market and earn high returns. But the task of forecasting share prices (SP) is far from simple. SP movement is dependent in nature and both intrinsic as well as extrinsic factors contributes to the SP fluctuations (Malhotra et al.,2013). The pioneering work on determinants of SP by Collins (1957) for US banks identified various factors influencing the SP movements. Following Collins (1957), there have been various attempts to identify the determinants of SP for different markets.

Thus, the objective of this research is to investigate whether firm specific variables and macroeconomic variables have significant correlations and impacts on the firms' SP in the Malaysian manufacturing industry. The firm specific variables chosen for this research include earnings per share (EPS), dividend per share (DPS) and return on equity (ROE) while the macroeconomic variables include interest rate (IR), exchange rate (ER), gross domestic product (GDP) and money supply (M2). As evidenced in the literature, stock market is very important in the investment world and SP is one of the biggest concerns that investors should focus on especially in the leading industry such as manufacturing industry. Fund managers and investors should pay close attention to the stock market happenings and any possible variables that impact on share price should not be neglected. It would be still fascinating to carry out the research in this context especially involving the emerging market like Malaysia.

This study claims two important contributions. Firstly, the outcome of this study is expected to enrich the literature available in stock price determinants. Secondly, the findings from this study may help investors in designing better investment strategies by taking into account all the factors influencing the stock price movement.

Literature Review

In the past, various studies had been done to investigate the variables that affect SP. Most of the studies found that both firm specific variables and macroeconomic variables are correlated to SP (Nirmala et al., 2011). Sharif et al. (2015) carried out a study to examine the determinants of SP and they found that SP is determined by firm specific variables such as EPS, DPS and ROE in Bahrain.

Sharma (2011) suggested that EPS is one of the most significant variables that impacts on SP. The earnings of a firm measure the firm's value change in a certain period to the common equity shareholders (Nichols & Wahlen, 2004). Collins (1957) and Gordon (1959) conducted a study on the factors affecting SP and they found that EPS is one of the significant factors. Besides, they discovered that EPS are positively correlated to SP. This idea is supported by Zarezadeh et al. (2011) who also found a positive correlation between these two variables in his study. Sharma & Singh (2006) collected data from 2001 to 2005 on 160 firms in India and they concluded that EPS is one of the SP determinants. Somoye et al. (2009) applied simple linear regression model in her research to study the effects of some variables on SP from 2005 to 2007 in Nigeria. The results showed that EPS do affect stock price positively but it does not determine the SP significantly. However, by using multiple regression model, Srivastava (1984) in his correlation analysis found that EPS do not influence the security market

price of 327 companies in India.

In finance, the wealth creation principle is mainly based on the dividend payouts and share price notions. Bainbridge (1993), Brigham & Ehrhardt (2002), and McGuigan & Kretlow (2003) claimed that when company shareholders are paid dividends regularly, maximisation of shareholder's wealth occurs and this in turn increases the stock price and thus, investors are able to earn some capital gains. Benartzi et al. (1997), Ofer & Siegel's (1987) and Bae (1996) discovered that SP and dividend are positively correlated. In a study done by Campbell & Shiller (1988), they concluded that earnings and dividends are significant in forecasting stock returns. Moreover, Jensen & Johnson (1995) discovered that SP reduction is caused by dividend cut. Masum (2014) also agreed on this idea and even further proved that a company's dividend policy significantly impacts on stock prices. Moreover, Shiller (1984, 1989) suggested investors to purchase low priced stock in relative to dividends and sell high priced stocks. However, SP is independent of dividends in perfect capital markets and only affects stock price in imperfect markets (Miller & Modigliani, 1961).

Raballe & Hedensted (2008) also proved that ROE is positively correlated with SP. According to them, dividend policy and SP can be affected by ROE. Also, Liu & Hu (2005) used empirical analysis to study the payment of cash dividend in China and they discovered that firms with high cash dividend payment have high EPS as well as ROE. They stated that both EPS and ROE have positive correlation with SP. Majed et al. (2012) did a study to identify the financial ratios affecting SP in Jordan from 2002 to 2007 and he discovered that a group of three ratios which consists of return on asset, return on investment and ROE impacts on SP. The research findings showed a

strong positive correlation of 45.7% between this group of financial ratios and SP. However, he found that individually, ROE is not correlated to SP. Kabajeh et al. (2012) also agreed on this result that ROE on its own does not affect SP like other variables.

In theory, share price is also determined by macroeconomic variables such as IR, ER, M2 and GDP. For instance, in developed countries, SP changes are most likely to be influenced by the macroeconomic happenings (Muradoglu et al., 2000). These macroeconomic variables have a direct and indirect relation to stock market changes and thus, contribute to the SP fluctuation (Erdem et al., 2005). By using Autoregressive Distributed Lag (ARDL) model, Majid & Yusof (2009) discovered that IR and SP are significantly dependent on each other. However, they found that when the IR increases, the SP increases and vice versa. Maysami et al. (2004) also supports this idea that IR is positively correlated to SP. The IR volatility affects a country's economic cycle. Thus, when the IR fluctuates, the SP changes. Conversely, Daferighe & Aje (2009) found that IR is negatively correlated to SP in Nigeria. Similarly, the findings collected by Uddin & Alam (2007) in their research also showed that an increase in IR leads to a decrease in SP. However, by using regression model, Farsio & Fazel (2010) found that IR is not a powerful tool to forecast the stock price in their study. Also, by using Granger Causality Test in their study, they found no correlation between IR and Sp. Wong et al. (2005) supports this outcome that SP is not dependent on IR from 1994 to 2001. Furthermore, Elyasiani (1998) and Czaja (2009) stated in their study that IR does affect SP over time.

Besides, Husam (2012) conducted a study to investigate the macroeconomic factors that influence the SP from 2001 to 2009. By using Granger causality tests, IRF

and cointegration, they found that exchange rates have two directions and both directions affect the SP in Turkey. Fisher (1980) stated that ER is correlated to the current account. As the ER influences the SP, it also influences the current account of a country. He found that ER influences the international competitiveness which in turn influences the real output and income. Hence, ER affects a corporate company's rival which also influences the earnings of the company. In short, ER impacts on SP, Nadeem & Zakir (2012) also agreed on this idea that ER does impact on SP based on their study on the Pakistan's stock market. Based on a study conducted by Tai et al. (2012), the results showed that in six Asian countries including Malaysia, the ER is negatively correlated with SP which supports the portfolio balance theory.

Due to the inflows of hot money from other countries, M2 plays an important role in the stock market of China (Tian & Ma, 2010). Zakaria & Shamsuddin (2012) also showed that M2 is a stock price determinant through their Granger causality tests and regression analysis. The high coefficient between M2 and stock price from their tests indicates a strong positive correlation between them. Many real activity economists often argue that a rise in M2 indicates a rise in money demand which also hints on a rise in economic activity. In other words, there are higher cash flows due to the higher economic activity which cause an increase in stock prices (Sellin, 2001). Also, Homa & Jaffe (1971), Hamburger & Kochin (1972) agreed that M2 and SP are positively correlated. However, by using Johansen-Juselius procedure, Baharumshah (2004) showed that M2 is negatively correlated to SP. Likewise, Alam & Rashid (2014) also produced a different result that shows M2 and SP have negative correlation.

Reddy (2012) discovered that in India, the

GDP significantly impacts on SP. A study done by Oskooe (2010) proves that the growth of economy and stock price in Iran are correlated with each other in the short run. Hence, he believed that GDP is positively correlated with stock prices. Chakravarty (2005) stated that GDP affects stock price and stock return through the impacts of both discount rate and expected dividend. Geske & Roll (1983) and Chen et al. (1986) also found that there is a positive correlation between stock price and future economic activity which is measured by GDP. However, by using Exponential Generalized Autoregressive Conditional Heteroskedasticity (EGRACH) model, Wang (2011) found that GDP has no fundamental correlation with stock price. Also, according to Duca (2007), GDP movement and stock price are not dependent on each other in Germany but in countries such as France, Japan, United States and United Kingdom, there is a granger cause from stock prices to GDP.

Methodology

This research involves collecting and analysing data to determine whether a relationship exists between the research variables and the strength of the relationship. This research adopts the quantitative method rather than qualitative method and there is no primary data being used in this research. Sampling and data collection determine the source of data as well as the target population of the research. To carry out this research, a sample of 30 manufacturing companies listed in Bursa Malaysia is selected. The data collected are annual data for a period of 5 years between 2011 and 2015. This research used mainly the secondary data which are the historical data from January 2011 to December 2015. The historical data collected for the selected variables are from various sources such as Bank Negara Malaysia, Trading Economics.com, Marketwatch.com and

Yahoo Finance. This research runs several tests using the SPSS software such as Pearson Correlation Coefficient, R-square Analysis, Durbin-Watson test, Analysis of Variance (ANOVA) and Coefficient test to examine the correlation between the research variables and to test the significance of the research. In this research, two general equations in linear regression can be defined as follows to investigate the correlation between the dependent and independent variables.

Firm specific variables

$$SP = \beta_0 + \beta_1 (EPS) + \beta_2 (DPS) + \beta_3 (ROE) \quad \text{Equation (1)}$$

Macroeconomic variables

$$SP = \beta_0 + \beta_1 (IR) + \beta_2 (ER) + \beta_3 (M2) + \beta_4 (GDP) \quad \text{Equation (2)}$$

where, SP: share price, EPS: earnings per share, DPS: dividend per share, ROE: return on equity, IR: interest rate, ER: exchange rate, M2: money supply, GDP: gross domestic product.

Analysis

Discussion of Firm Specific Variables Findings

Table 1. Descriptive Statistics for the firm-specific variables

	Mean	Std.	N
		Deviation	
Share Price	1.8781	2.53531	150
Earnings per Share	18.6112	21.93859	150
Dividend per Share	8.1113	12.08927	150
Return on Equity	11.4919	7.85129	150

Note: This table shows the descriptive statistics for the firm-specific variables analysis. The time framework used for analysis purpose are spanned between January 2011 to December 2015. A sample of 30 manufacturing companies listed in Bursa Malaysia are selected and the number of observation are 150.

Table 1 shows that share price has a mean of 1.8781, EPS has a mean of 18.6112, DPS has a mean of 8.1113 and

ROE has a mean of 11.4919. On the other hand, SP has a standard deviation of 2.53531, EPS have a standard deviation of 21.93859, DPS has a standard deviation of 12.08927 and ROE has a standard deviation of 7.85129.

Table 2. Correlations Analysis for Firm Specific Variables

	Share Price	Earnings per Share	Dividend per Share	Return on Equity
Pearson Correlation	1.000	0.596	0.795	0.073
Earnings per Share		1.000	0.674	0.333
Dividend per Share			1.000	0.090
Return on Equity				1.000

Note: This table shows the correlation analysis for the firm-specific variables analysis. The time framework used for analysis purpose are spanned between January 2011 to December 2015. A sample of 30 manufacturing companies listed in Bursa Malaysia are selected and the number of observation are 150.

Table 2 shows that all the firm specific variables which are EPS, DPS and ROE are positively correlated to the dependent variable which is SP in this research. For instance, there is a moderate positive correlation between EPS and SP ($r = 0.596$). This indicates that when EPS increase by 1%, the SP will increase by 59.6%. On the other hand, there is a strong positive correlation between DPS and SP ($r = 0.795$). This indicates that when DPS increases by 1%, the SP will increase by 79.5%. However, there is a weak positive correlation between ROE and SP ($r = 0.073$). This indicates that when ROE increases by 1%, the SP will increase by only 7.3%. Hence, EPS and DPS are able to explain SP significantly rather than ROE in this research.

Table 3. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.800	0.640	.633	1.53682	1.659

Note: This table shows the model summary for the firm-specific variables analysis. The time framework used for analysis purpose are spanned between 2011 to 2015. A sample of 30 manufacturing companies listed in Bursa Malaysia are selected and the number of observation are 150. The predictors are Constant, return on Equity, Dividend per Share, Earnings per Share and the dependent variable is share price.

Based on Table 3, the value of Durbin-Watson obtained is 1.659. This indicates that all the variables are not affected by the autocorrelation issue.

Besides, the R value obtained is 0.800 which indicates that there is a strong linear correlation between the firm specific variables and share price in this research. On the other hand, R square has a value of 0.640 and this indicates that the firm specific variables which are ROE, DPS and EPS can explain about 64.0% of the dependent variable which is SP. Thus, these firm specific variables do affect SP in this research.

Table 4. ANOVA Analysis

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	612.921	3	204.307	86.504	0.000
	Residual	344.825	146	2.362		
	Total	957.745	149			

Note: This table shows the ANOVA analysis. The time framework used for analysis purpose are spanned between January 2011 to December 2015. A sample of 30 manufacturing companies listed in Bursa Malaysia are selected and the number of observation are 150. The predictors are Constant, Return on Equity, Dividend per Share, Earnings per Share and the dependent variable is share price.

Based on Table 4, the F-value obtained is 86.504 while the p-value is 0.000 which is less than 0.05. Therefore, this indicates that all the three firm specific variables of this research are able to predict the dependent variable significantly. Hence, the regression model is a good fit. All the null hypotheses (H0) for firm specific variables are rejected while all the alternate hypotheses (H1) are accepted in this research. In short, earnings per share, dividend per share and return on equity are the best predictors of share price at 0.05 level of significance.

Table 5. Coefficients Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.516	0.233		2.213	0.028
	Earnings per Share	0.015	0.008	0.128	1.767	0.039
	Dividend per Share	0.149	0.014	0.712	10.397	0.000
	Return on Equity	-0.011	0.017	-0.033	-0.622	0.535

Note: This table shows the Coefficient analysis. The time framework used for analysis purpose are spanned between January 2011 to December 2015. A sample of 30 manufacturing companies listed in Bursa Malaysia are selected and the number of observation are 150.

From this table, a general equation in linear regression can be defined as follows.

$$SP = \beta_0 + \beta_1 EPS + \beta_2 DPS - \beta_3 ROE \tag{3}$$

In Unstandardized Coefficients, the equation can be derived as follows.

$$SP = 0.516 + 0.015 EPS + 0.149 DPS - 0.011 ROE \tag{4}$$

In Standardized Coefficients, the equation is formed as follows.

$$SP = 0.128 EPS + 0.712 DPS - 0.033 ROE \tag{5}$$

Based on the equations derived above, it shows that all the firm specific variables which are EPS, DPS and ROE are correlated to SP. For example, when EPS

increase by 1 unit, the SP will increase by 0.128 units. On the other hand, when DPS increases by 1 unit, the share price will increase by 0.712 units. However, when ROE increases by 1 unit, the SP will decrease by 0.033 units. In short, EPS and DPS are positively correlated to SP whereas ROE is negatively correlated to SP in this research. Furthermore, the significance values from the coefficients table also indicate that both EPS (0.039) and DPS are significant to SP as its p-value (0.000) is less than 0.05. However, the p-value of ROE (0.535) is insignificant more than 0.05. Therefore, all the firm specific variables do impact on SP but ROE is insignificant to SP in this research.

Discussion of Macroeconomic Variables Findings

Table 6. Descriptive Statistics

	Mean	Std. Deviation	N
Share Price (SP)	1.8781	2.53531	150
Interest Rate (IR)	3.1000	0.12288	150
Exchange Rate (ER)	3.4496	0.43771	150
Money Supply (M2)	1423860.2	137311.5	150
Gross Domestic Product (GDP)	314.0	15.79855	150

Note: This table shows the descriptive statistics for macroeconomic variables analysis. The time framework used for analysis purpose are spanned between January 2011 to December 2015. Five macroeconomic variables are chosen the number of observation are 150

Table 6 shows that share price has a mean of 1.8781, IR has a mean of 3.1000, ER has a mean of 3.4496, M2 has a mean of 1423860.2000 and GDP has a mean of 314.0200. On the other hand, SP has a standard deviation of 2.53531, IR has a standard deviation of 0.12288, ER has a standard deviation of 0.43771, M2 has a standard deviation of 137311.59634 and GDP has a standard deviation of 15.79855.

Table 7. Correlations Analysis for Macroeconomic Variables

	Share Price	Interest Rate	Exchange Rate	Money Supply	Gross Domestic Product
Pearson Correlation	Share Price 1.000	0.117	0.004	0.152	0.014
	Interest Rate	1.000	-0.161	0.854	0.164
	Exchange Rate		1.000	-0.174	-0.282
	Money Supply			1.000	0.316
	Gross Domestic Product				1.000

Note: This table shows the correlation analysis for the macroeconomic variables analysis. The time framework used for analysis purpose are spanned between January 2011 to December 2015. The number of observation are 150.

Table 7 shows that all the macroeconomic variables which are IR, ER, M2 and GDP are positively correlated to the dependent variable which is SP in this research. However, these variables have a rather weak correlation with SP compared to firm specific variables. For example, there is a weak positive correlation between IR ($r = 0.117$) and SP. This indicates that when IR increases by 1%, the SP will increase by only 11.7%. Similarly, there is also a weak positive correlation between M2 ($r = 0.152$) and SP. This indicates that when M2 increases by 1%, the SP will increase by only 15.2%. Besides, there is even a weaker correlation between ER ($r = 0.004$) and SP. This indicates that when ER increases by 1%, the SP will increase by only 0.4%. Likewise, there is also a very weak correlation between GDP ($r = 0.014$) and SP. This indicates that when GDP increases by 1%, the SP will increase by only 1.4%. Hence, all the macroeconomic variables are able to explain SP but these variables are insignificant to SP in this research.

Table 8. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.161	0.026	-0.001	2.53670	1.329

Note: This table shows the model summary for the macroeconomic variables analysis. The time framework used for analysis purpose are spanned between January 2011 to December 2015. The number of observation are 150. The predictors are Constant, Gross Domestic Product, Interest Rate, Exchange Rate, Money Supply and the dependent variable is share price.

Based on Table 9, the F-value obtained is 0.959 while the p-value is 0.432 which is more than 0.05. Therefore, this indicates that all the macroeconomic variables of this research are not able to predict the dependent variable significantly. Hence, the regression model is a not good fit. All the null hypotheses (H0) for macroeconomic variables are accepted while all the alternate hypotheses (H1) are rejected in this research. In short, IR, ER, M2 and GDP are not the best predictors of SP at 0.05 level of significance.

Table 9. ANOVA Analysis

Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression 24.694	4	6.173	0.959	0.0432
	Residual 933.052	145	6.435		

Note: This table shows the ANOVA analysis. The time framework used for analysis purpose are spanned between January 2011 to December 2015. A sample of 4 macroeconomic variables are selected and the number of observation are 150. The predictors are Constant, Gross Domestic Product, Interest Rate, Exchange Rate, Money Supply and the dependent variable is share price.

Table 10. Coefficients Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.497	9.326		0.161	0.873
	Interest Rate	-1.226	3.333	-0.059	-0.368	0.713
	Exchange Rate	0.123	0.499	0.021	0.248	0.805
	Money Supply	4.040E-6	0.000	0.219	1.307	0.193
	Gross Domestic Product	-0.006	0.015	-0.040	-0.433	0.666

Note: This table shows the Coefficient analysis. The time framework used for analysis purpose are spanned between January 2011 to December 2015. A sample of 4 macroeconomic variables are selected and the number of observation are 150.

Based on the equations derived above, it shows that all the macroeconomic variables which are IR, ER, M2 and GDP are correlated to share price. For example, when ER increases by 1 unit, the SP will increase by 0.021 units. On the other hand, when M2 increases by 1 unit, the SP will increase by 0.219 units. However, when IR increases by 1 unit, the SP will decrease by 0.059 units. Also, when GDP increases by 1 unit, the SP will decrease by 0.040 units. In short, ER and M2 are positively correlated to SP whereas IR and GDP are negatively correlated to SP in this research. However, the significance values from the coefficients table indicate that all the macroeconomic variables are insignificant in this research as the p-values are more than 0.05. Therefore, these macroeconomic variables do impact in SP but compared to firm specific

variables, these variables are insignificant to SP in this research.

Discussions of results Earnings per Share

Based on the results obtained, EPS is correlated and significant to SP in the Malaysian manufacturing industry. This result is supported by Sharma & Singh (2006) who stated that EPS is one of the SP determinants. A firm's current earnings is an informative tool for shareholders to forecast its future earnings. When a firm's current earnings are high, its future earnings are expected to be high as well. Thus, this increases both the firm's current and future expected dividend. As a result, this triggers the investors to change their future dividend expectations on the firm and hence, this increases the firm's market value and SP (Beaver, 1998). Somoye et al. (2009) also agreed that EPS do affect SP positively.

Dividend per Share

Similarly, the tests also prove that DPS is correlated to SP in the Malaysian manufacturing industry. Among all the firm specific variables in this research, DPS is the most significant variable that affects SP. According to Sharif et al. (2015), dividends paid to stockholders is a powerful tool to determine SP. Jensen and Johnson (1995) discovered that SP reduction is caused by dividend cut. When company shareholders are paid dividends regularly, maximization of shareholder's wealth occurs and this in turn increases the SP. Hence, an increase in DPS leads to an increase in SP. (McGuigan & Kretlow, 2003). Ofer & Siegel's (1987) and Bae (1996) also agreed that SP and dividend are positively correlated.

Return on Equity

ROE is correlated to SP in the Malaysian manufacturing industry based on the results. However, ROE is not a strong variable that affects SP. Majed et. al.

(2012) did a study to identify the financial ratios affecting SP in Jordan from 2002 to 2007 and he discovered that a group of three ratios which consists of return on asset, return on investment and ROE impacts on SP. His findings showed a strong positive correlation of 45.7% between this group of financial ratios and SP. However, he found that individually, ROE is not correlated to SP. Kabajeh et al. (2012) also agreed on this result that ROE on its own does not affect SP like other variables. ROE will affect stock price only if the company fully and efficiently utilises the shareholder funds (Azeem & Kouser, 2011).

Interest Rate

Undeniably, IR is correlated to SP in the Malaysian manufacturing industry. Basically, an IR change causes a change in the return yield on investment and this in turn affects the investment decision. Some investors may shift from fixed income investment to buying shares or vice versa. Thus, this impacts on SP. However, the results show that IR is insignificant to SP. Although SP is dependent on IR, it is weak variable to SP as compared to firm specific variables. Farsio & Fazel (2010) stated that IR is not a powerful tool to forecast the SP as they found no correlation between IR and SP in their study. Wong et al. (2005) also supports this explanation that SP is not dependent on IR.

Exchange Rate

Among all the macroeconomic variables tested in this research, ER is the least significant variable that impacts on SP. ER is correlated to the current account. As the ER influences the SP, it also influences the current account of a country. Furthermore, ER influences the international competitiveness which in turn influences the real output and income.

Hence, ER affects a corporate company's rival which also influences the earnings of the company. However, the results show that ER is insignificant to SP. Rahman & Uddin (2009) also stated that there is no correlation between ER and SP.

Money Supply

Compared to other macroeconomic variables in this research, M2 is the strongest macroeconomic variable that influences SP even though it is not as significant as the firm specific variables. As the M2 increases, the share price increases. Homa & Jaffe (1971), Hamburger & Kochin (1972) also agreed on this idea that M2 and stock prices are positively correlated. The investment decision for both individual and institutional investors will be affected by some M2 modifications. Many real activity economists often argue that a M2 change causes a change in money demand which in turn affects the economic activity. In other words, M2 influences the SP. However, M2 is an insignificant macroeconomic variable that impacts on SP in this research.

Gross Domestic Product

Like exchange rate, GDP is a rather weak macroeconomic variable that affects SP in this research. A firm's profitability contributes to the GDP levels and GDP in turn affects the stock price. As the output increases, the expected future cash increases and therefore, this increases the SP (Geske & Roll, 1983). However, the results show that GDP is insignificant to SP in this research. Wang (2011) supported this outcome that GDP has no fundamental correlation with SP. Also, according to Duca (2007), GDP movement and stock price are not dependent on each other.

Conclusion

The results from Pearson Correlation

Coefficient test show that all the research variables are positively correlated to SP in this research. An increase in these variables leads to an increase in SP. EPS and EPS have a moderate positive correlation with SP whereas ROE, IR, ER, M2 and GDP have a rather weak positive correlation with SP in this research.

Besides, the Durbin-Watson statistic shows that all the research variables do not have serial autocorrelation issue. The R-square analysis also proves that a strong linear correlation exists between the firm specific variables and share price in this research. In other words, the firm specific variables can significantly explain and affect the SP. However, there is a weak linear correlation between the macroeconomic variables and share price in this research. Thus, these variables are insignificant.

On the other hand, both F-value and p-value obtained from ANOVA test indicate that all the firm specific variables are significant in this research as the regression model is a good fit. Therefore, all the null hypotheses (H0) for firm specific variables are rejected while all the alternate hypotheses (H1) are accepted in this research. On the contrary, all the macroeconomic variables are found to be insignificant in this research. Hence, all the null hypotheses (H0) for macroeconomic variables are accepted in this research while all the alternate hypotheses (H1) are accepted in this research.

Furthermore, the results obtained from Coefficient analysis implies that EPS and DPS are positively correlated to SP whereas ROE is negatively correlated to SP in this research. Also, all the firm specific variables are significant in this research except ROE. Conversely, the test shows that ER and M2 are positively correlated to SP whereas IR and GDP are negatively correlated to SP in this research. Howev-

er, all the macroeconomic variables are found to be insignificant in this research. In a nutshell, EPS and DPS are significant variables that impact on SP of the manufacturing industry in Malaysia while ROE, IR, ER, M2 and GDP are insignificant in this research. This research aims to provide a better understanding and guidelines to all firms on the performance of financial market in Malaysia. This research proves that firm specific variables such as EPS and DPS are significant variables that impact on SP. Changes in these variables lead to changes in SP. Therefore, investors should consider these variables in their investment decision making.

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