



**DYNAMIC EFFECTS OF MACROECONOMIC
FACTORS ON SHARIAH COMPLIANT
SECURITIES IN MALAYSIAN CAPITAL
MARKET**

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Abstract

This research has been conducted with an aim to investigate the dynamic relationship between the FTSE Bursa Malaysia EMAS Shariah Index, as a broad benchmark for the performance of Shariah-compliant securities in Malaysia, and a collection of internal factors including consumer price index, industrial production index, Islamic interbank rate, broad money supply, and foreign exchange rate. The analysis applied monthly data from March 2007 to May 2014 with a total of 87 observations per variable. This study used vector autoregressive (VAR) approach and Johansen cointegration test, vector error correction model (VECM) and its subsequent test of Granger causality and the short-run relationships among the variables were investigated. It was eventually found out that EMAS Shariah Index has significant long-run relationships with all the studied variables except Islamic interbank rate, industrial production index, and exchange rate.

Keywords: Shariah-compliant securities, Vector Autoregressive, Johansen Cointegration, Vector error correction model