

STOCK PRICES, EXCHANGE RATES AND CAUSALITY IN MALAYSIA: A NOTE

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ABSTRACT

This article contributes to the debate on stock prices and exchange rates in Malaysia. It examines causal relations using a new Granger non-causality test proposed by [Toda and Yamamoto](#) (*Journal of Econometrics*, **66**, 225-50, 1995). Among the findings of interest, there is a feedback interaction between exchange rates and stock prices for the pre-crisis period. The results also reveal that exchange rates lead stock prices for the crisis period. In a financially liberalized environment, exchange rates stability is important for stock market well-being.

Keywords: Exchange rates, Stock prices, Causality, Malaysia

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I. INTRODUCTION

There is increasing interest in the relationship between stock prices and exchange rates. This is due to the emergence of new capital markets, adoption of more

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