
Testing for farmer stock market-unemployment hypothesis during the COVID-19 pandemic in Malaysia

Muzafar Shah Habibullah*, Mohd Yusof Saari,
Evan Lau, Badariah Haji Din and
Anuar Shah Bali Mahomed

Putra Business School,
43400 Serdang, Selangor, Malaysia
Email: muzafar@putrabs.edu.my
Email: mysaari@gmail.com
Email: lphevan@unimas.my
Email: badariahdin@uum.edu.my
Email: anuar@upm.edu.my

*Corresponding author

Abstract: Farmer hypothesised that there is a linear long-run relationship between the movement of the stock market and movement in the unemployment rate, and there is a unidirectional causality running from stock market to unemployment rate. In this study we test the Farmer hypothesis by using Malaysia's daily data on stock price and unemployment rate during the COVID-19 pandemic. We performed unit root, cointegration and short-run as well long-run non-causality tests between the stock market and unemployment rate using high frequency data for the period January to October 2020. Our results suggest that both stock market and unemployment rate are non-stationary and cointegrated. The causality test results suggest that using shorter lag, Farmer hypothesis is rejected while at longer lags, Farmer hypothesis cannot be rejected.

Keywords: Farmer hypothesis; unemployment; stock market; COVID-19; Malaysia.

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Biographical notes: Muzafar Shah Habibullah is currently a Professor at the Putra Business School, Selangor, Malaysia. Formerly, he was a Professor in the Department of Economics, Faculty of Economics and Management, Universiti Putra Malaysia (UPM), Malaysia. He holds a PhD in Economics from the University of Southampton, UK. His research interest includes natural disasters and environmental quality; regional convergence, biodiversity and labour market dynamics.

Mohd Yusof Saari is an Associate Professor and a Chief Economist at the EIS-UPMCS Centre for Future Labour Market Studies, Social Security Organization (SOCISO), Putrajaya, Malaysia. He obtained his PhD in Economics from the University of Groningen, the Netherlands in 2015.

Input-output, social accounting matrix (SAM) and applied general equilibrium models are his areas of expertise. His is the recipient of the most prestigious national award 'National Academic Award 2017' for his Article Journal Publication Award in Arts and Social Sciences in 2018.

Evan Lau is an Associate Professor in the Faculty of Economics and Business, Universiti Malaysia Sarawak (UNIMAS). He was the Deputy Dean for Research and Postgraduate at the Faculty of Economics and Business from 2016–2017 and the Director of Centre for Business, Economics and Finance Forecasting (BEFfore), UNIMAS from 2013–2016. He holds several editorial positions in numerous international journals. He was at the Faculty of Economics at Cambridge from October 2013 to April 2014 as a visiting scholar. He was appointed as the Visiting Professor in Universitas Sebelas Maret from June–July 2019 and with Universitas Hayam Wuruk from February–August 2021. He was selected for the World Class Professor (WCP) program by the Ministry of Education and Culture, Indonesia, twice in 2020 and 2021. He was appointed the Visiting Research Fellowship (VRF) for the Central Bank of Malaysia in May 2021 for a year. He holds a PhD in International Economics from Universiti Putra Malaysia. His area of specialisation is in applied econometrics and international economics.

Badariah Haji Din is an Associate Professor at the School of Government, College of Law Government and International Studies (COLGIS), Universiti Utara Malaysia (UUM), Kedah, Malaysia. She holds a PhD in Management Accounting from Universiti Utara Malaysia. She is currently the Director of the Centre for International Affairs and Cooperation (CIAC), UUM. Her research interests include works in public economics, public financial management, shadow economy, public policy and entrepreneurship.

Anuar Shah Bali Mahomed is an Associate Professor at the School of Business and Economics, Universiti Putra Malaysia (UPM). He acquires his PhD in Management and Information Systems (MIS) from the Victoria University Melbourne, Australia in 2010. He has vast experience and excellent knowledge in the areas of management, culture and information systems. He has published his works in both local and international journals.

1 Introduction

25 January 2020 was the day Malaysia records its first positive case of COVID-19. By 10 March 2020 Malaysia recorded 3-digit numbers of COVID-19 total new cases since January, 2020. Realising how deadly the COVID-19 coronavirus and the speed at which it spread among the population, the Malaysian Government implemented the Movement Control Order (MCO) on 18 March 2020 (Shah et al., 2020). During the lockdown period, all airports were closed such that domestic and international flight was prohibited, school and workplace were closed, implementing work from home, stay at home requirement, mass gathering, and public events were banned, travelling inter states was prohibited, and travelling within state was restricted to 10 kilometres.

Like many other countries, the Malaysian stock market was not spared from the aftermath of the COVID-19 outbreak. Lee et al. (2020) examines the effects of the number of COVID-19 cases and the number of deaths cases on the Malaysian stock price indices for the period 1 January to 18 April 2020. They found that the number of