

Construction of the Malaysian Islamic Stock Market Integration Index

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Abstract

In this paper we construct the Malaysian Islamic Stock Market Integration Index (MIMII) to examine the integration of its stock market with the world. We use the International Capital Asset Pricing Model (ICAPM) and Kalman filter approach to derive the index. The results show that the degree of market integration is time-varying. Interestingly, during the crisis, the Malaysian Islamic stock market was obviously segmented from the world market. Thus, the Islamic stock market provides opportunity for the potential benefits from international portfolio diversification during the crisis. The prohibition of riba (interest), maysir (gambling) and gharar (uncertainties) along with Islamic values of justice, fairness and avoidance of exploitation are some of possible reason to avoid the Islamic stock market from the financial crisis.

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