

ABSTRACT

This study aims to increase understanding of the relationship between exchange rates and a firm's value at the individual firm level by measuring and examining the significant level of foreign exchange exposure. Past empirical studies have motivated this research to further investigate whether the firm's value represented by its stock return is significantly exposed to foreign exchange rate changes. Furthermore, this paper examines the changes in the nature of the relationship as time evolves – particularly during and after an economic crisis. For the purpose of the study, the Arbitrage Pricing Theory (APT) approach using the market-based model is employed to measure the impact of the exchange rate fluctuations on a firm's stock return by considering the lag effect, which is expected to enhance the result and findings of the study. Samples selected for the study comprise of 80 large firms listed on Bursa Malaysia. They are classified under tradable and non-tradable sectors and cover the sample period of July 2005 to June 2009. Stock returns are regressed against the U.S. dollar, Japanese Yen and EURO dollar to identify the differences in the foreign exchange influence on these currencies. Similar to previous studies, this study found no strong evidence to conclude that Malaysian firms are significantly exposed to the foreign exchange rate volatility on a low significant level of the exposure coefficients but the exposure does increase during an economic crisis. It is implied that foreign exchange does not pose a significant threat to a firm, but that does not mean firms should pay less attention to foreign exchange fluctuations.

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