

Table of Contents

Contents

Abstract.....	□
Acknowledgement.....	Π
Table of Content	III, □□
List of Tables	□
List of Figures	□
List of Abbreviations.....	□□
Chapter 1: Introduction	1
1.1 Introduction.....	1
1.2 Scope of the Study	6
1.3 Statement of the Problem	7
1.4 Objectives of the Study.....	8
1.5 Organization of the Study	9
Chapter 2 : Literature Review	11
2.1 Concept of Exchange Rate Exposure.....	11
2.2 Internal and External Hedging Definitions.....	12
2.2.1 Matching and Netting (Internal Hedging Strategies).....	13
2.2.2 FCD and FDD (External Hedging Strategies).....	13
2.3 Hedging and Firms Value Relationship.....	16
2.4 Early Researches	18
2.5 Studies on Foreign Exchange Rate Exposure and Hedging.....	20
2.5.1 Reasons of Failures	20
2.5.2 Exchange Rate Exposure of Stock Return	21
2.5.3 Hedging by External Strategies (FDD and FCD).....	27
2.6 Summary of Chapter.....	30
Chapter 3: Research Methodology	32
3.1 Hypotheses Development.....	32
3.2 Empirical Framework	33
3.3 Selection of Measures	37

3.4 Population and Sampling Design.....	38
3.5 Data Collection Procedure.....	39
3.6 Analytical Tools and Data Analysis Techniques	41
3.7 Chapter Summary.....	45
Chapter 4 : Research Results	46
4.1 Introduction.....	46
4.2 Exchange Rate Fluctuations.....	47
4.3 Descriptive statistics and correlation Matrixes	50
4.4 Test of Multicollinearity	52
4.5 Finding and Results	55
4.6 Test of Heteroskedastisity	58
4.7 Summary and discussion.....	60
Chapter 5: Conclusion and Recommendation	62
5.1 Overview of the study	62
5.2 Results interpretations and Justifications.....	63
5.2.1 Direct Currency Intervention (DCI)	64
5.2.2 Open Market Operation (OMO).....	68
5.2.3 Statutory Reserve Requirement (SRR)	69
5.3 Limitations of the investigation.....	70
5.4 Recommendations about further studies	71
5.5 Summary of the chapter	72
Bibliography	73
Appendices	78

List of Tables

Table 3.1: Variable definition and predicted sign.....	37
Table 4.1: Dependent Variable's Criteria.....	50
Tables 4.2: Correlation Matrices for Dependent Variables and Explanatory Non-Dummy Variables.....	51
Table 4.3: Multicollinearity, Step 1, Equation 1.1.....	52
Table 4.4: Multicollinearity, Step 2, Equation 2.1.....	52
Table 4.5: Multicollinearity, Step 2, Equation 2.2.....	52
Table 4.6: Multicollinearity, Step 2, Equation 2.3.....	53
Table 4.7: Multicollinearity, Step 3, Equation 3.1.....	53
Table 4.8: Multicollinearity, Step 3, Equation 3.2.....	54
Table 4.9: Cross-sectional regressions with Financial Hedge Strategies.....	56
Table 4.10: The Relationship between the use of FCD and FDD.....	57
Table 4.11: Heteroskedasticity, Step 2, Equation 2.1, 2.2, and 2.3.....	58
Table 4.12: Heteroskedasticity, Step 3, Equation 3.1, and 3.2.....	58
Table 5.1: Bank Negara Foreign Exchange Reserves.....	66
Table 5.2: Adjustments to Statutory Reserve Requirement.....	70

List of Figures

Figure 4.2.1(a): Histogram on the Exchange Rate (Daily Data).....	47
Figure 4.2.1(b): Histogram on the Exchange Rate (Monthly Data).....	48
Figure 5.1: Changes in International Reserves.....	66
Figure 5.2: Forex Intervention by BNM (Bank Negara Malaysia).....	67

List of Abbreviations

ASEAN- Association of Southeast Asian Nations

BNM- Bank Negara Malaysia

CNB- Czech National Bank

CRSP- Center for Research in Security Prices

DCI- Direct Currency Intervention

FCD- Foreign Currency Derivatives

FDD- Foreign Denominated Debts

GAAP- Accounting Generally Accepted Accounting Principles

GDP- Gross Domestic Product

ISA- International Standards of Accounting

KLIBOR- Kuala Lumpur Interbank Offered Rate

MYR- Malaysia Ringgit

OLS- Ordinary Least Squar

OTC- Over the Counter

OMO- Open Market Operation

OPR- Official Policy Rate

PDV- Present Discount Value

SME- Small and Medium Enterprises

SRR- Statutory Reserve Requirement

USD- United States Dollar

VECM- Vector Error Correction Model

VIF- Variance Inflation Factor

WLS- Weighted Least Squared