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INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA
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**PRICING EFFICIENCY OF MALAYSIAN
CORPORATE BONDS IN KLSE –
*FROM A RISK PREMIUM PERSPECTIVE***

Lim Soon Hoe
MBA Batch 4

Under the Supervision of
Dr. Azmi Omar

MBA PROJECT PAPER

Submitted to the
Management Centre
International Islamic University, Malaysia

In Partial Fulfillment of the Requirements
For the Degree of
Master of Business Administration

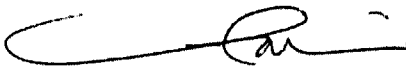
20th August 2001

APPROVAL PAGE

NAME: LIM SOON HOE
MATRIC NO: G9816043
TITLE OF DISSERTATION: PRICING EFFICIENCY OF MALAYSIAN
CORPORATE BONDS IN KLSE – *FROM A
PREMIUM PERSPECTIVE*

The undersigned certifies that the above student has satisfied the conditions of the dissertation in partial fulfillment of the requirements for the degree of Master of Business Administration (Finance).

Supervisor



~~Assoc. Prof. Dr. Mohd Azmi Omar~~
Dean, Kulliyah of Economics and Management Sciences,
International Islamic University, Malaysia
Dated 20th August 2001

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ACKNOWLEDGEMENT

This paper would not have been completed without the supervision and guidance from Dr. Azmi Omar. Many thanks to Dr. Azmi for his meticulous checking and patience and for his invaluable time after office hours.

I would like to express my gratitude to Dr. Azmi Omar and Dr. Obiyathulla Ismath Bacca for their encouragement and support during the tenure of the MBA course.

And I would also want to thank all the staff of Management Centre for making learning and studying in IIUM a wonderful experience.

Last but not lest, I would like to thank all the course mates of Batch 4. It was fun and enriching learning together.

20th August 2001

ABSTRACT

The paper studies the bond pricing efficiency in KLSE from a risk premium perspective. The risk premium and yield spread of stock return and bond yield form the basis of stock and bond valuation. This paper uses the analysis of correlation between the stock risk premium and bond yield spread to gauge the efficiency of the bond pricing. A total of 11 listed bonds and their underlying stocks were analysed from 27 May 1996 to 5 August 1998 straddled across the July 1997 Asian financial crisis. The study finds that Malaysian listed bonds were grossly inefficient. This paper reckons that the utmost measure is necessary to increase and enhance the liquidity in both the primary and secondary market in order to increase its pricing efficiency.

Pricing efficiency is the catalyst to develop the debt market.

20th August 2001

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