4. The Foreign Exchange Rate

   The price at which one country's currency exchanges for the currency of another country.

5. Capital Loss

   The decrease in the value of an investment or asset.

6. Capital Gain

   The amount by which an asset's selling price exceeds its initial purchase price. A realized capital gain is an investment that has been sold at a profit. An unrealized capital gain is an investment that hasn't been sold yet but would result in a profit if sold. Capital gain is often used to mean realized capital gain. For most investments sold at a profit, including mutual funds, bonds, options, collectibles, homes, and businesses, the IRS is owed money called capital gains tax

7. Efficient markets theory

   The application of rational expectations to the pricing of securities in financial markets.

1.8. Organization of Thesis

- Chapter I

  This chapter explains the reason for choosing the co integration of ASEAN stock market as the topic of this thesis, and the way to analyze the model.

- Chapter II

  Describe the overview of ASEAN stock market condition.

- Chapter III

  This chapter reviews previous research about stock market co integration.

- Chapter IV

  This chapter explains theories as a fundamental basic to this thesis, i.e. the co integration of stock market.

- Chapter V

  This chapter explains the research methods to use in data analysis.

- Chapter VI

  This chapter is the core of this thesis; it includes data analysis and data testing.

- Chapter VII

  This chapter consists of the conclusion and discussion of the implications.

2.1.4. Singapore Capital Market

The Singapore stock market was operated jointly with Malaysia until 1973, and until 1989, Malaysian companies were listed on both stock exchanges. Later Malaysian and international shares were traded through electronic trading in Central Limit Order Book [CLOB], which was closed after 1998. The growth is gradual; the increase in market capitalization is high, though dominated by a small number of enterprises of the state or statutory boards. Singapore therefore has large companies but fewer than those listed in Malaysia. The majority of the shares in these SOEs were held by one of the four government holding companies (The Library of Congress Country Studies; CIA World Fact book).

At the close of 1999, there were 370 companies listed on the stock market with total market capitalization of Sp$434 billion, 3.4 times the GDP for that year. Of this market capitalization, 27 per cent is held by one single government holding company, Temasek Holdings.

This domination by the state has persisted from the 1970s. The few privatizations undertaken since 1987 have helped to stimulate trading. This was particularly keen in 1993 with the listing of Singtel. Thus market capitalization leapt from US$48.8 billion to US$132.7 billion between 1992 and 1993.2 between 1990 and 1994, trading value had risen from US$20.2 billion to US$81.0 billion.

Foreign counters accounted for 20 per cent of the total market capitalization in 1988-92.3 In addition, there was secondary listing of foreign stocks denominated in foreign currencies.

4.	Osamah Al-Khazali, Ali F.Darrat, and Mohsen Saad (2006)	Study about intra-regional integration of the GCC stock markets with the role of market liberalization. It examines empirically, whether, and to what extent, equity markets in the Gulf Cooperation Council (GCC) are integrated inter-regionally.	The Johansen-Juselius (1990) cointegration test and unit root tests.	Non-stationary variable is characterized with time-varying stochastic properties.	Weekly (as opposed to daily) data to avoid potential problems with non-trading, non-synchronous trading or bid/ask spreads.	As the four equity markets of the Gulf become more integrated intra-regionally, opportunities for long-term gains from portfolio diversification across these markets are likely to disappear. However, the prospects for short-term diversification gains remain possible especially if the relatively high average returns in the Gulf markets achieved in recent years persist and transaction costs continue to fall resulting from efforts to reform and liberalize capital markets in the region.

interdependency among ASEAN's stock markets in the short run, but not significantly related in the long run before the 1997 crisis.

Therefore, based on these findings, it is hypothesized that the four ASEAN's stock markets (Indonesian, Malaysian, Philippine, and Singaporean) are interdependent toward each other.

If either of the lines is crossed, the null hypothesis of coefficient constancy can be rejected at the 5% level of significance. A similar procedure is used to carry out the CUSUMSQ test, which is based on the squared recursive residuals. If the entire coefficient is relative stable after the test, it shows that the coefficient of variables relationship is quite significant in term of causation relationship.

CONCLUSION AND POLICY IMPLICATIONS

Conclusion

The objective of this study is to observe the dynamic interaction among stock price index in four ASEAN countries, namely Indonesia, Malaysia, Philippine, and Singapore from period 1990.i to 2004.ii.

The maximum likelihood based λtrace statistics introduced by Johansen (1988, 1991), bound test by using Autoregressive Distributive Lags Approach, finds co integration among the four ASEAN's stock indices during the sample period. This means that those stock price indices are integrated during the period. Thus, the hypothesis that the countries' stock markets are interdependent is confirmed by these results.

Implications

The four ASEAN stock indices are highly integrated. This means that the countries' stock indices influence each other and move together to their long run equilibrium. A decrease in one stock index would be followed by the others. Since most of the ASEAN stock markets, except for the Singaporean stock market, have not been well developed, as their price indices widely fluctuate, they provide not only higher returns, but also higher risks to their investors. Therefore, diversification of portfolio within the ASEAN stock markets is unlikely to reduce the risk due to the high degree of financial integration of these markets.

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