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**VOLUME 1**

# **INVESTIGATIONS ON PURE MATHEMATICS, FINANCE MATHEMATICS AND OPTICS**

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$$\varphi_1(x, y, z) = z$$

$$\pi_1 = \begin{pmatrix} x & y & z \\ y & z & x \end{pmatrix}$$

$$z' = x^2 + y^2 + z^2 + 2yz$$

$$\pi_1 \vee_1 \pi_1 = \vee_{17}$$



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يُونَيْتِي اِسْلَام اِنْتَار اِنْجِنِي اَمِلِسِيَا

# **Investigations on Pure Mathematics, Finance Mathematics and Optics**

Nasir Ganikhodjaev  
Farrukh Mukhamedov  
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# Contents

Preface

**Part I Pure Mathematics Concentration**

Chapter 1	THE BEHAVIOR OF TRAJECTORY OF $\xi^s$ QUADRATIC STOCHASTIC OPERATIONS	2
Chapter 2	THEORY OF MARKOV CHAINS IN PEDIATRIC DISEASES	8
Chapter 3	ON NONLINEAR DYNAMIC SYSTEMS ARISING IN POTTS MODEL	14
Chapter 4	THE FIRST RETURN TIME AND DIMENSION	22
Chapter 5	ON AS SOCIATIVE ALGEBRAIC STRUCTURE OF GENETIC INHERITANCE	31
Chapter 6	INTERACTING PARTICLE SYSTEM	37
Chapter 7	DYNAMICS OF GENERALIZED LOGISTIC MAPS	43
Chapter 8	GEOMETRIC BROWNIAN MOTION AND CALCULATION OF OPTION PREMIUM IN BLACK SCHOLES MODEL	50
Chapter 9	ON THE ELEMENTARY CHARACTEFIZATION OF PRIMES IN PRIMALITY TESTS: TWO SHORT STUDIES.	57
Chapter 10	ON ASSOCIATIVE ALGEBRAIC STRTJCTURE OF GENETIC INHERITANCE	64
Chapter 11	SOME APPLICATION OF ERGODIC THEORY IN NUMBER THEORY	70
Chapter 12	STUDY OF ROLES OF EXTERNAL MAGNETIC FIELD ON ISING AND POTTS MODEL	76
Chapter 13	INVESTIGATION OF STABILITY OF FIXED POINTS OF NONLINEAR DISCRETE DYNAMICAL SYSTEMS	82
Chapter 14	MARKOV CHAINS AND ITS APPLICATION: THE INVENTORY MODEL	90
Chapter 15	PHASE TRANSITION FOR ISING MODEL WITH TWO COMPETING INTERACTION ON CAYLEY TREE OF ORDER 4	96
Chapter 16	LIMIT BEHAVIOR OF DYNAMIC SYSTEMS CORRESPONDING TO LATTICE MODELS WITH COMPETING PROLONGED AND ONE-LEVEL BINARY INTERACTIONS	101
Chapter 17	ASSOCIATIVE ALGEBRA IN GENETIC INHERITANCE	109
Chapter 18	ON $\xi^a$ - QUADRATIC STOCHASTIC OPERATORS AND THEIR CLASSIFICATIONS	115

## **Part II Finance Mathematics Concentration**

Chapter 19	ANALYZING THE PERFORMANCE OF INVESTMENT STRATEGY OF EPF	123
Chapter 20	PREDICTION OF STOCK PRICE USING NEURAL NETWORK	130
Chapter 21	COMPARISON BETWEEN CONVENTIONAL AND ISLAMIC BOND IN MALAYSIA	136
Chapter 22	STOCK PERFORMANCE ANALYSIS BETWEEN MALAYSIAN AIRLINES SYSTEM BERHAD AND AIRASIA BERHAD	144
Chapter 23	ISLAMIC PAWNBROKING (AR-RAHNU) AS A MICRO CREDIT INSTRUMENT IN MALAYSIA	151
Chapter 24	ANALYSIS OF CRUDE PALM OIL FUTURES PRICES TRADED ON BURSA MALAYSIA	160
Chapter 25	AN EMPIRICAL STUDY ON THE EFFICIENCY OF THE TRIM AND FILL METHOD IN CORRECTING PUBLICATION BIAS IN META ANALYSIS	166
Chapter 26	PERFORMANCE ANALYSIS OF INSURANCE AND TAKAFUL INDUSTRIES IN MALAYSIA	171
Chapter 27	ANALYSIS OF DATA USING MULTILEVEL MODELLING WITH MLwiN	179
Chapter 28	FINANCIAL PERFORMANCE OF ISLAMIC BANKING AND CONVENTIONAL BANKING IN MALAYSIA	186
Chapter 29	A STUDY ON THE EFFECT OF PUBLICATION BIAS IN META ANALYSIS	194
Chapter 30	RATIO ANALYSIS: BANK ISLAM MALAYSIA BERHAD (BIMB) & MALAYAN BANKING BERHAD (MAYBANK)	201
Chapter 31	AN ANALYSIS OF MALAYSIAN UNIT TRUST FUNDS: ISLAMIC VS CONVENTIONAL	207

## **Part III Optics Concentration**

Chapter 32	QUANTUM TRAJECTORY METHOD USING MPI PARALLEL COMPUTING	214
Chapter 33	LINEAR WAVE PROPAGATION IN SINGLE MODE OPTICAL FIBRE	220
Chapter 34	THE OPTICAL RAY TRACING TECHNIQUE IN LENS SYSTEM WITHIN AND BEYOND PARAXIAL APPROXIMATION	226
Chapter 35	WAVE PROPAGATION IN NONLINEAR AND HOMOGENEOUS MEDIA: KERR MEDIA	234
Chapter 36	MATRIX METHODS OF OPTICAL RESONATORS	240

# ANALYSIS OF CRUDE PALM OIL FUTURES PRICES TRADED ON BURSA MALAYSIA

Norfaieqah Ahmad  
Assist. Prof. Dr. Mohd Aminul Islam

**Abstract.** *In a perfect world, the value of futures markets arises from their ability to predict spot prices at a specified future date, thus providing market participants with a means of managing the risks associated with trading a commodity. It is therefore important for players to forecast the correct futures price at any given time, as any deviation will enable the players to either short or long their positions in such a way as to benefit from the mispricing of the commodity. This paper attempts to investigate the relationship between spot and futures prices for crude palm oil contracts traded in Bursa Malaysia. Using historical price of crude palm oil futures (FCPO), this study applied a simple regression model to test the future market efficiency. The test utilises data from January 2008 until December 2009. Regressions between the spot and futures price are done for each 5-month, 4-month, 3-month, 2-month and 1-month before the delivery month. This test shows that only one month contract (i.e. July CPO futures contract) appears to confirm the concept that as the delivery period for a futures contract is approached, the futures price converges to the spot price of the underlying asset. The other contracts appeared to be inefficient as there are possibilities of mispricing of the commodity leading to arbitrage opportunity.*

## 1 Introduction

A futures contract is an agreement to buy or sell a specific quantity of a commodity at a specific price in a future date. Introduced in Malaysia in October 1980, a commodity futures trading came with two major economic purposes. The first one is to provide an efficient price discovery mechanism for the palm oil industry and other agricultural commodities. The second purpose is to provide a hedging mechanism against the risk of price volatility.

In 2008, Malaysia produced 17.7 million tonnes of palm oil on 4.5 million hectares of land as shown in Table 1.1. While Malaysia's palm oil production is less than Indonesia, it is still the largest exporter of palm oil in the world. About 60% of palm oil shipments from Malaysia head to China, the European Union, Pakistan, United States and India. They are mostly made into cooking oil, margarine, specialty fats and oleo chemicals. According to the World Bank and the Asian Development Bank, Malaysia is the world's second largest palm oil producer next to Indonesia. The report stated that the industry currently employed 570,000 people with the export earnings of more than RM68 billion in 2007.

### 1.1 Objective of the study

The objective of this study is to investigate the relationship between spot and futures prices of Crude Palm Oil Futures (FCPO) traded on Bursa Malaysia. Therefore, FCPO can be benefited in three ways. Firstly, plantation companies, refineries, exporters and millers can use the FCPO to manage risk and hedge against the risk of unfavourable movements in the price of FCPO in the physical market. Secondly, traders can use the FCPO to gain leveraged exposure to movements in CPO prices. Lastly, via FCPO, global fund managers and proprietary traders are able to be part of the active commodity market instantaneously.