SUMMARY

MITA NASRI. Relationship between Stock Prices and Exchange Rates in Indonesia: Empirical Studies at Macro and Micro Levels. Supervised by HERMANTO SIREGAR and SAHARA.

The relationship between exchange rates and stock prices has been the focus of research, triggered by the diverse results of existing research on the relationship between the two variables. In addition, high volatility either from exchange rates or stock prices often gives unexpected influence on each other. The purpose of this study is to investigate relationship and the direction of the influence between exchange rates and stock prices at macro and micro levels. The macro level is the relationship between exchange rate (IDR to USD) and the Composite Stock Price Index (IHSG), while the micro level is the relationship between exchange rate and the company's stock or in other word on firm level. To investigate how is relationship at micro level, this research using 244 company stocks price taken from companies that had been listing at Jakarta Stock Exchange from 1 January 2007 to 30 December 2016.

The data used in this research is secondary data in the form of daily closing price of IHSG, company stock price, and exchange rate of IDR to USD (KURS), that had been obtained from various sources. The research method used is the Granger causality test conducted in the environment vector autoregression (VAR) or vector error correction model (VECM). The decision to use VAR or VECM is determined by the presence or absence of cointegration between variables. The analysis is supplemented by impulse response estimation and variance decomposition estimation.

Tests conducted at the macro level indicate a two-way causal relationship between IHSG and KURS. Both IHSG and KURS respond positively to changes in other variables. The shock contribution provided by IHSG is estimated to be greater than the shock contribution of KURS to the change of IHSG. That means, the IHSG has a greater potential to affect KURS. Tests conducted at the micro level conclude there is a diverse form of causality between exchange rates and stock prices. Only 32% of samples proved a causal relationship with exchange rates. 38 companies support the traditional approach, there is a moving influence from KURS to stock prices. There are only 6 companies that support the portfolio approach, there is a causal relationship that moves from stock price to KURS. The rest as many as 25 companies declared a two-way causal relationship between KURS and stock prices. The observation by using market capitalization value of each company shows that there is no standard result which affirms the existence of market capitalization as a factor influencing the relationship of exchange rate and stock price causality.

Keywords: stock price, exchange rate, Granger causality, VAR, VECM