# SUMMARY

ASEP KURNIA HIDAYAT. The Impact of Stock Market Capitalization and Macroeconomic Variables on Indonesia Composite Index in Indonesia Stock Exchange. Supervised by MUHAMMAD FIRDAUS and BUNASOR SANIM.

Stock market has an essential role in national economy as it provides an overview about the country's economic condition and stock market serves two functions in an economy. First, as a means for a company to obtain funds from the public for business development. Second, as a means for public to invest in financial instruments like stock, bond, mutual fund, etc. People can place their money acording to the characteristics of profit and risk of each instrument.

The place of stock market transaction in Indonesia is Indonesia Stock Exchange (IDX) which was established through the merger between Jakarta Stock Exchange and Surabaya Stock Exchange on November 30, 2007. The merger was undertaken to improve national stock market efficiency which is expected to promote an increased attractiveness and industrial competitiveness in the international level. In addition, merger also stimulates the change of market capitalization. The change of capitalization is influenced by the existence of price change and the issuance or reduction of stock recorded in the exchange.

The post-merger IDX experienced an immensely rapid growth. IDX's market capitalization value at the beginning of the merger was Rp 1 076.49 trillion, the number of listed companies were 396, the new issuers were 17, and the delisted companies were 6. Those data keep improving until the market capitalization in 2017 amounted to Rp 7 052.39 trillion, the number of listed companies were 566, listing listed companies were 37, and delisted companies were 8. The growth of capitalization has an impact on stock price change. The projection of Indonesia Composite Index (ICI) which amounted to 1.355,41 at the beginning of IDX's establishment also went up to 6.355,65 at the end of 2017.

Aside from capitalization, there are many factors influencing stock price or stock return, both macro and micro-economic ones, leading to an ICI fluctuation. Macro factors are economic and non-economic. Macroeconomic factors are detailed in several economic variables, such as inflation, interest rate, exchange rate, economic growth rate, world oil price, world gold price, and regional stock index. Non-economic macro factors include domestic political events, social events, as well as international law and politics. The influence of macro factors on stock price is not always the same.

This research aimed to analyze the impact of stock market capitalization and macroeconomic variables on ICI and formulate recommendations of strategy to enhance stock investment markets capitalization after 10 years of merger. The macroeconomic variables analyzed were inflation, world oil price, world gold price, and Hang Seng regional index.

This research used quantitative and qualitative data approach. Quantitative data comprised ICI, stock market capitalization, inflation, world oil price, world gold price, and Hang Seng Index. Secondary data were obtained from internet, in the form of quarterly time series data from January 2008 until December 2017, which were processed from monthly data using average method. The qualitative

data used were sourced from 4 experts in IDX and 2 experts in Bank Indonesia. Eviews 6 software was utilized to support this research in data analysis.

The analysis model used in this research was Error Correction Model (ECM). This model is used to correct the regression equation between variables which are individually non-stationary to return to its equilibrium value in long run, provided that there is cointegration linkage between the variables that make up the equation. The formulation of strategy recommendations made use of Analytical Hierarchy Process (AHP) to capture respondents' opinion regarding the strategy to enhance stock investment capitalization and optimization in IDX.

The results of this research showed that in general, all independent variables in the long run had a positive and significant impact, except inflation which had a negative and significant impact. In short run, stock market capitalization and Hang Seng Index had a positive and significant impact, while SBI interest rate had a positive and insignificant impact. Inflation and world oil price had a negative and significant impact, while world gold price had a negative and insignificant impact. Error Correction Term coefficient had an impact of -0.207329 with a negative and insignificant direction at the significance level of 5%. It showed that the adjustment mechanism process or adjustment process in the long run equilibrium lasted for 5 quarters.

Stock market capitalization both in short run and long run had a positive and significant impact and more dominant impact than the impact of macroeconomic variables. In consequence, a strategy to enhance stock investment capitalization and optimization in IDX was required. The recommended strategy was a strategy to encourage an increased investment in large-cap stock so that ICI can continue to grow and be more resistant to macroeconomic turmoil. Based on the results of AHP vertical analysis, factors that become a priority in the strategy is the policy (monetary and capital markets), actor priorities Indonesia Stock Exchange and Bank Central Indonesia a priority objective of the investment climate and economic stability conducive. Recommended alternative strategy to increase investment in large-cap stocks.

Keywords :  analytical hierarchy process (AHP), error correction model (ECM), composit indexs, capitalization, macroeconomic