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Program Pascasarjana Manajemen dan Bisnis
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ABSTRACT

The Relationships between Exchange Rate of Indonesia and Different Indices of The Indonesia Stock Exchange

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The relation between exchange rates and stock market index is one of the most important questions in financial research. The purposes of this study were (1) to examine the interaction between exchange rate of Indonesia (Rupiah) and different indices in the Indonesia Stock Exchange (IDX); (2) to determine the sensitivity of exchange rate of Indonesia Rupiah and different indices in Indonesia Stock Exchange. In this paper, I employ the econometrical methodologies such as VAR/VECM, Granger Causality Test and ARCH/GARCH to study the relationships among the two variables using daily data from January 1st 2002 – June 18th 2010. The result of this study are as follows: (1) Johansen's Cointegration Test showed that only manufacturing sector index has long run equilibrium with exchange rate and market index. Moreover, Granger Causality Test by using data before the crisis period showed that there were no causality between exchange rate and IDX' index. On the other hand, the result of Granger Causality Test by using data after the crisis period showed that there were two-way causality between exchange rate and IDX' index; (2) Indonesian Islamic Index (JII) and the index of primary sector are those who have the highest sensitivity towards exchange rate fluctuation. The results suggested that local investors ought to concern the timing in buying, pending, or selling their stocks so they could minimize the risk.

Keyword : Indonesia Stock Exchange, Exchange Rate, Stock Index, VAR/VECM, ARCH/GARCH

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