

ABSTRACT

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COINTEGRATION RELATIONSHIP BETWEEN INDONESIA SHARIA STOCK INDEX, COMPOSITE STOCK PRICE INDEX, AND DOWJONES INDEX

This study will analyze the Index Saham Syariah Indonesia (ISSI), Indeks Harga Saham Gabungan (IHSG), & Indeks Dow Jones (DOWJONES) by using the Cointegration Analysis. This research will explain and clarify how those 3 Index will move together in a parallel way yet it has a very different criterion with the others. ISSI is holding the principles of Syariah, while the other like IHSG contain all price movements that are listed in Bursa Efek Indonesia, and DOWJONES consist of the 30 largest stocks in the United States which also becoming the benchmark of all index in the world.

By using the Cointegration technique, ISSI will be analyzed carefully to find the long-term relationship with IHSG & DOWJONES. Thereafter, VECM or *Vector Error Correction Model* will be used to analyze the short-term relationship. Furthermore, the bilateral relation can also be discovered by using the causality analysis.

Cointegration analysis can elaborate that ISSI is having long-term relation with IHSG and DOWJONES. However, by using VECM method it will explain that ISSI are moving rapidly in adjusting towards the stability of the long-term relation with the causality analysis, while DOWJONES have the same causality movement with ISSI and IHSG.

To conclude, that there are a significant long-term relation between those three variables which indicate the movement of stock market was integrated with each other while the closure price is different and has been selected in *Sharia* way. The one way correlation from DOWJONES to ISSI dan IHSG shows that it's the center of the world economy both real or not such as the financial industry.

Keyword: Cointegration Method, VECM Analysis, Causality Analytc, Syariah Principle, ISSI, IHSG, DOWJONES.