

# **CHAPTER I**

## **INTRODUCTION**

### **1.1 BACKGROUND OF THE STUDY**

Growth of investment in a country will be influenced by economic growth in the country. The better the economy of a country, the better the prosperity of the population will be. This higher level of prosperity is generally characterized by an increase in income levels of the community. With this increase in income, more and more people will have excess funds, the excess funds can be used to be stored in savings or invested in securities traded in the capital market.

Investment itself is an activity to place funds on one or more assets for a certain period in the hope of obtaining income or an increase in the value of the initial investment (capital) which aims to maximize the expected return within the acceptable risk limit for each investor.

Investment in the capital market is one way that can be taken by companies in increasing profits. The type of investment is very diverse, with many types of investments being given options for investors to invest in the type of investment information. Generally, investment activity is one of the activities or more of the investment in the capital expected that the profit / increase in investment value (capital) is aimed at maximizing returns (Tandelilin, Portfolio dan Analisis Investasi, 2010, p. 2)

The condition of the banking world in Indonesia from time to time has undergone many changes. Apart from being caused by internal developments in the banking world, it is also inseparable from the influence of developments outside the banking world, such as the real sector in the economy, politics, law, and social.

Debt to Equity Ratio is a ratio used to measure the level of debt usage to the total shareholder's equity owned by the company. Debt to Equity Ratio shows the percentage of funds provided by shareholders to lenders. The higher the ratio, the lower the company's funding provided by shareholders. From the perspective of the ability to pay for long-term obligations, the lower the ratio, the better the company's ability to pay its long-term obligations. (Trisnandari, 2015). We can see this in the comparison table as follows:

**Table 1.1**  
**Comparison Table of Debt to Equity Ratio (DER) to Stock Return**

Company	Year	Total Debt (in ThousandsRp)	Stock Return(%)
PT Bank Sinarmas, Tbk. (BSIM)	2012	13,326,284	-0.17
	2013	14,693,195	0.07
	2014	18,095,435	0.41
	2015	24,199,077	0.16
	2016	26,717,304	1.21
PT Bank Central Asia, Tbk. (BBCA)	2012	390,067,244	0.14
	2013	430,893,993	0.05
	2014	472,550,777	0.37
	2015	501,945,424	0.01
	2016	560,556,687	0.17
PT Bank Banten, Tbk. (BEKS)	2012	7,028,754	0.03
	2013	8,285,208	-0.30
	2014	8,407,900	-0.05
	2015	5,656,516	-0.34
	2016	4,386,820	0.08

Source: [www.idx.co.id](http://www.idx.co.id)

In table 1.1 above shows that total debt at BSIM (PT Bank Sinarmas, Tbk) has increased from year to year, followed by an increase in stock returns. Total debt to BBCA (PT Bank Central Asia, Tbk) has increased from year to year, while its stock returns have fallen from 2013 and 2015, and increased again in the next following

year respectively. Total debt to BEKS (PT Bank Banten, Tbk) has decreased from year to year, also followed by a decrease in stock return.

The inflation rate, namely the presentation of price increases in a given year, is usually used as a measure to show how badly the economic problems faced. high inflation can encourage capital flight abroad. high inflation will cause an increase in nominal interest rates that can disrupt the level of investment needed to spur a certain level of economic growth. We can see this in the comparison table as follows:

**Table 1.2**  
**Comparison Table of Inflation Rate to Stock Return**

Company	Year	Total Inflation Rate (%)	Stock Return(%)
PT Bank Sinarmas, Tbk. (BSIM)	2012	4.30	-0.17
	2013	8.38	0.07
	2014	8.36	0.41
	2015	3.35	0.16
	2016	3.02	1.21
PT Bank Central Asia, Tbk. (BBCA)	2012	4.30	0.14
	2013	8.38	0.05
	2014	8.36	0.37
	2015	3.35	0.01
	2016	3.02	0.17
PT Bank Banten, Tbk. (BEKS)	2012	4.30	0.03
	2013	8.38	-0.30
	2014	8.36	-0.05
	2015	3.35	-0.34
	2016	3.02	0.08

Source: [www.idx.co.id](http://www.idx.co.id)

In table 1.2 above shows that total inflation rate has gone up and down from year to year. In BSIM (PT Bank Sinarmas, Tbk) from

2012 to 2013 when the inflation rate rises up, the stock returns rate goes down, and vice versa happens in the following years when the inflation rate goes down, the stock return rate rises up except for the year 2016. The same thing also happens to BBKA (PT Bank Central Asia, Tbk) and BEKS (PT Bank Banten, Tbk) where in 2012-2013 the inflation rate rises up, the stock return goes down and rises up again after the inflation rate goes down.

Interest rates are an important factor in a country's economy because it greatly influences the "health" of an economy. This not only affects consumers' desire to spend or save their money but also affects the business world in making decisions. The comparison between Interest rate and Stock Return can be seen below:

**Table 1.3**  
**Comparison Table of Interest Rate to Stock Return**

Company	Year	Total Interest Rate (%)	Stock Return(%)
PT Bank Sinarmas, Tbk. (BSIM)	2012	5.75	-0.17
	2013	7.50	0.07
	2014	7.75	0.41
	2015	7.50	0.16
	2016	6.50	1.21
PT Bank Central Asia, Tbk. (BBKA)	2012	5.75	0.14
	2013	7.50	0.05
	2014	7.75	0.37
	2015	7.50	0.01
	2016	6.50	0.17
PT Bank Banten, Tbk. (BEKS)	2012	5.75	0.03
	2013	7.50	-0.30
	2014	7.75	-0.05
	2015	7.50	-0.34
	2016	6.50	0.08

Source: [www.idx.co.id](http://www.idx.co.id)

Based on the Tabel 1.3, the interest rate has gone up throughout the year 2012-2014 and goes down in the year 2015 and 2016. In BSIM (PT Bank Sinarmas, Tbk) in there year 2012-2014 , when the interest rate goes up, the stock return goes down. And when the interest rate goes down, the stock return rose up in 2015-2016. In BBCA (PT Bank Central Asia, Tbk) and BEKS (PT Bank Banten, Tbk), in the year 2012 to 2013 where the interest rate rose up, the stock return goes down. From the year 2014 to 2016 where the interest rate went down, the stock returns went up and down.

Based on the explanation above, the researcher is intrigued to conduct a research titled, **“The Effect of Debt to Equity Ratio (DER), Interest and Inflation Rate on the Stock Return in Banking Sector Listed in IDX”**.

### **1.1 PROBLEM LIMITATION**

The researcher limits the research on how Debt to Equity Ratio (DER), Interest and Inflation Rate causes effects on the Stock Return in Banking Sector listed in IDX. To do so, the researcher calculated using SPSS.

### **1.2 PROBLEM FORMULATION**

Based on the background outlined before, the formulation of the research problem are as follows:

1. Does debt to equity ratio affectto stock return of banking sector listed in IDX?
2. Does interest rate affect to stock return of banking sector listed in IDX?
3. Does inflation rate affect to stock return of banking sector listed in IDX?
4. Does debt to equity ratio, interest rate, and inflation rate simultaneously affect to stock return?

### **1.3 OBJECTIVE OF THE RESEARCH**

The objective expected from this research are as follows:

1. To find out whether debt to equity ratio affect to stock return of banking sector listed in IDX.
2. To find out whether interest rate affect to stock return of banking sector listed in IDX.
3. To find out whether inflation rate affect to stock return of banking sector listed in IDX.
4. To find out whether debt to equity ratio, interest rate, and inflation rate simultaneously affect to stock return.

### **1.4 BENEFIT OF THE RESEARCH**

#### **1.4.1 THEORETICAL BENEFIT**

For theoretical purposes, this research provides professors and future researchers a guidance when conducting a research on the effect of debt to equity ratio, interest rate, and inflation rate affect to stock return.

#### **1.4.2 PRACTICAL BENEFIT**

For practical purposes, this research provides managers, business practitioners are expected to be useful as input and comparison material for the policies that have been used to far.

### **1.5 SYSTEMS OF WRITING**

The researcher compiles her research in the format as follows:

#### **CHAPTER I – INTRODUCTION**

This chapter starts with background of the study, problem statement, and limitation of research. Problem formulation, objective, and the benefit of the research will be briefly explained. Lastly, in the system of writing, an overview of the main chapters in this study will be presented.

## **CHAPTER II – LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

This chapter explains about theoretical background and definitions for all dependent and independent variables of this research, as well as the impact theory among them. Several previous research conducted within the last 10 years will be briefly elaborate in order to support this research. Lastly, the hypothesis development, research model, and framework of thinking will be presented by the end of this chapter. Briefly, in chapter II consists of:

- a. Theoretical background, which is a compilation of related theories used as a reference in this research
- b. Prior research, which is the statement of prior researches in the relevant topic
- c. Hypothesis development, which states the testable relationship of two or more variables as a result of theory viewing
- d. Research model, which is a chart intended to prove the truth of the hypothesis
- e. Framework of thinking, which is the mindset of researchers linked to the research process

## **CHAPTER III – RESEARCH MODEL**

- a. This chapter will explicate the research design of this study, which is quantitative. Then the definition of population and sample will be briefly explained as well as the sampling collection method and its criteria. At last, the definition of variable, method of measurement and data analyzation of this research will be provided. Briefly, in chapter II consists of:

Research design, stating whether the research is using qualitative and quantitative method. In this research, quantitative descriptive analysis is used.

- b. Population and sample, which explains the entire research subject (population) and part of the entire research subject (sample)
- c. Data collection method, which explains the method of collecting research data
- d. Operational variable definition and variable measurement, which explains how a variable is measured (variable definition). In variable measurement, a set of rules are used to transform data into a quantitative one
- e. Data analysis method, which explains the process of transforming raw data to a ready-to-use data.

#### **CHAPTER IV – DATA ANALYSIS AND DISCUSSION**

- a. General view of “Research Object”, which is a brief explanation of the research object, or in another words, a general view of the research object.
- b. Data analysis, which displays the result of data analysis conducted in this research
- c. Descriptive statistic, which are methods of collection and display of data, for example in the form of tables, graphs, etc.
- d. Result of data quality testing
- e. Result of hypothesis testing, which is the decision making process resulted from data analysis, whether or not to accept or reject the null hypothesis

- f. Discussion, which is a more detailed explanation of the data analysis results

## **CHAPTER V – CONCLUSION**

The last chapter consists of the writer's conclusion, implication and recommendation for this research.

