

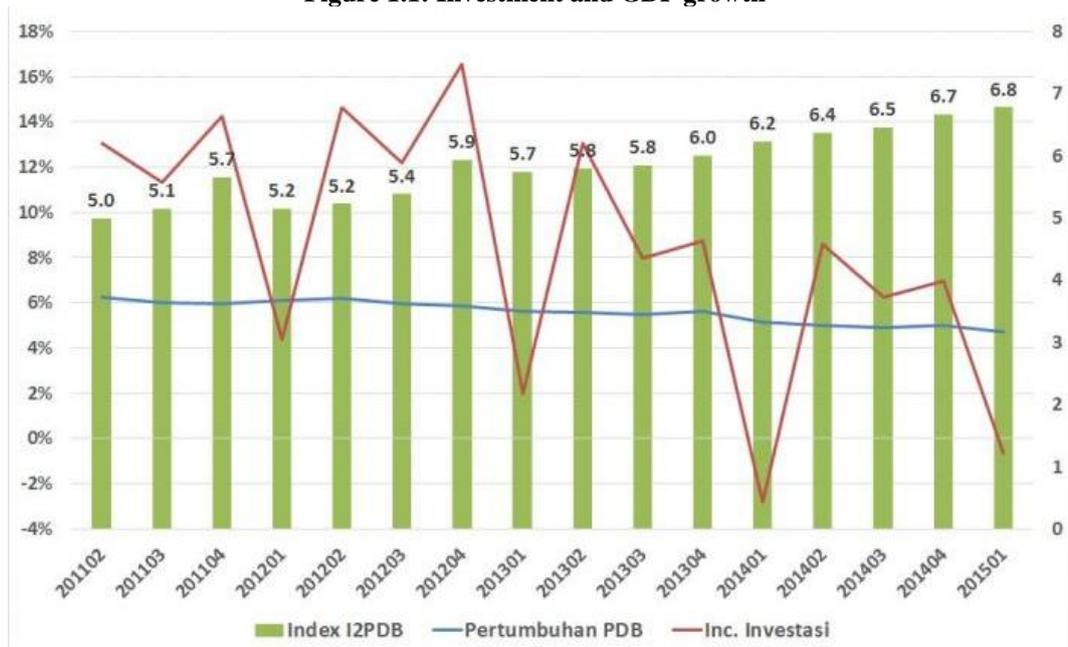
CHAPTER I

INTRODUCTION

1.1 Background

The capital market is one of today's economic instruments which has developed very rapidly. The stock market is the progress indicator of a country's economy and to support the economy the country concerned (Robert Ang, 1997). Capital Markets has a role important for the economy of a country because of the stock market run two functions: first as a means of funding for business or as a means for companies to obtain funds from investors or investor (Suad Husnan, 2004). The funds obtained from the capital market can be used for business development, expansion, capital increase labor and others. Both the capital market as a means for the community to invest in financial instruments such as stocks, bonds, mutual funds, and others. Thus, people can put funds it has in accordance with the characteristics of the advantages and risks of each of these financial instruments.

Figure 1.1: Investment and GDP growth



<http://www.kompas.com>.

The capital market is a means to improve the company's long-term funding needs by selling shares or issuing bonds, where the shares is evidence of partial

ownership of the company (Jogiyanto, 1998: 10). In other words, the stock market is a means for companies to offer shares and bonds to raise capital companies. Capital markets have an important role in the economy of a country because capital markets serve two functions: first as a means of funding for business or as a means for companies to obtain funds from investors or investor (Suad Husnan, 2004) in Witjaksono (2010).

According Novianto (2010) the stock market is one drive tool a country's economy, because the stock market is a means of capital formation and accumulation of long-term funds were directed to increase community participation in the mobilization of funds in order to support national development funds. Besides the capital market is also a representation to assess the condition of the company in a country, because almost all industries in a country represented by the capital markets. If the stock market experienced an increase (bullish) or declining (bearish) is seen from the rise and fall of stock prices were recorded and reflected through a movement of the index or Composite Stock Price Index (CSPI).

Khan (2012) stated share prices act as an important economic indicator in economic activities. One of the indices are considered by investors when they want to invest in the Indonesia Stock Exchange is the Composite Stock Price Index (CSPI). This is due to the movement or change of JCI may reflect the development of the company or the industry of a country, even that is seen as a fundamental change of a country. Amin (2012) says that the price of shares in the stock is not forever fixed, the fluctuation of the stock price depends on the strength of demand and supply. In the capital market, the fluctuations of the stock price makes for some interesting exchanges among investors (investors). On the other hand, increases and decreases in share prices could occur because of fundamental factors, psychological, as well as external. However, the macro variables are variables that give a major influence on the stock market, this is because the movement of the macro variables indicate the movement of a country's economy.

According to Khan (2012) stated share prices are influenced by many external and internal factors. In addition there are two things that are interesting to

observe in stock trading on the stock exchange, the stock prices or stock returns and stock liquidity (trading volume and frequency of trading) (Copeland and Conroy et al, 1990). Secondly it is a measure for the performance of a stock. Many things can affect the rise and fall of stock performance, one of which is the macro-economic factors such as inflation, exchange rate, and interest rates (Tirapat and Nitayagasetwat, 1999). In addition, factors that may influence the stock index, among others, changes in central bank interest rates, global economic conditions, the level of world energy prices, political stability of a country, and others (Blanchard, 2006). In addition to these factors, investor behavior itself also will have no effect on the movement of stock index.

Indonesia's interest rate policy is controlled directly by Bank Indonesia through the BI rate. BI Rate is the central bank's response to the inflationary pressure to remain at the targets. BI rate changes alone can trigger the movement in the Indonesian stock market. The decline in BI rate will automatically trigger a reduction of interest rates loans and deposits. For investors, the reduction of interest rates on deposits, will reduce the level of benefits when the funds they have invested in time deposits. In addition to the reduction in lending rates, capital costs will be small, it may be easier for companies to obtain additional funds at a low cost to increase productivity. Increased productivity will encourage an increase in profits, it can be an attraction for the investors to invest in the capital market.

One of the factors that affect stock prices is the change in exchange rates in the country. Changes in exchange rates in the country are relatively sharp will affect the confidence of investors to invest in the country in the form of the purchase of shares in the capital market. As a result, the performance of the stock market downturn that is characterized by weakening of the Composite Stock Price Index (CSPI). According Suta (2000, p: 15) the exchange rate of a country influence the development of capital market. Weakening JCI accompanied by the weakening of the rupiah against the USD (<http://www.kompas.com>, downloadable on August 12, 2015). Fluctuations in the exchange rate against foreign currencies will affect the investment climate in the country, especially the capital market. The appreciation of the rupiah against the US dollar, for example, will have an

impact on the company's development of Indonesian products abroad, especially in price competition.

Additionally BI rate, energy also holds one of the crucial role in the Indonesian economy. It is against the backdrop that the Indonesian Stock Exchange, capitalization mining company listed on the Jakarta Composite Index reached 13.9% (<http://Www.idx.co.id>, downloaded on 1 April 2015). In addition based on data from the Indonesia Stock Exchange (BEI) per December 17, 2009, the transaction stock trading is dominated by the mining sector is around 39.7%. This resulted in the increase in world oil prices will push up stock prices of mining companies This will certainly push up the JCI (<http://bisnis.liputan6.com>, download on March 30, 2015). Research conducted by Lutz Kilian and Cheol beom Park (2007) showed that world oil prices have a significant impact on the movement of the stock index.

In addition to oil, gold is one of the important commodity that can affect the movement of the stock market. It is based on that gold is one alternative investments tend to be safe and free of risk (Sunariyah, 2006). Gold is available in a variety of forms, ranging from bars or bullion, gold coins and gold jewelry. Known for gold bullion bars is shaped like a flat or bricks, where the levels of gold is 22 karat or 24, or if the percentage is 95% and 99%. This type of gold is the best investment because wherever and whenever an investor wants to sell, its value will always be the same. This value follows the applicable international standards on the resale value. Therefore, the increase in gold prices will push down stock price index as investors who initially invested in the capital markets will shift their funds to invest in gold is relatively safer than investing in the stock market (<http://bisniskeuangan.kompas.com>, download on March 30, 2015). It is also supported by research conducted by Graham Smith with the title "The Price Of Gold And Stock Price Indices For The United States". Research results show the gold price had a negative influence on stock market indices in the United States.

Today the industry in Indonesia is experiencing a period of growth (<http://www.bappenas.go.id>, download on March 30, 2015). These companies are active in export and import activities. One of the factors that launched the export

and import activities are their currency as a means of transaction. One currency that is commonly used in international trade is the United States dollar. For companies that actively conduct export and import of the stability of the exchange rate of the dollar against the rupiah becomes important. Because when the value of the rupiah depreciated with the US dollar, this will result in imported goods become expensive. If most of the raw materials the company uses imported materials, it will automatically lead to increased production costs. The increase in production costs will certainly reduce the level of corporate profits. The fall in the level of corporate profits will certainly affect the buying interest of investors in the shares of the company concerned. In general, this will push down the stock price index in the country.

Indonesia's own economy is now increasingly integrated in the global economy. Indonesia's economy is open on the balance of payments ranging from trade, capital flows in and out (capital inflow or outflow), and the activities of the government through the withdrawal and payment of foreign debt (<http://www.antara.com>, downloaded on 21 March 2015). United States and Japan are the two largest non-oil export destination of Indonesia. Changes in economic conditions in the country will certainly influence, either directly or indirectly, to Indonesia. If the economies of both countries are experiencing a state of recession, this would cause the value of Indonesian non-oil exports to these countries is also declining, as consumers in the country in a state of moderate economic recession will certainly reduce the level of spending.

In addition to an export destination countries Indonesia, the two countries is the country with the largest economy in the world (<http://www.kompas.com>, downloaded on 1 April 2015). It is based on that in 2009 the value of the combined gross domestic product of both countries representing 32.87% of the total worldwide gross domestic product (<http://www.imf.org>, downloaded on 30 March 2015). It is clear that changes in the economic situation in these countries can affect the Indonesian economy, through both exports and imports of goods and services, the flow of funds from investors both countries, or changes in the level of business risk in both countries. One of the economic variables that can be used to measure the economic performance of a country is the stock index in the

country. This is possible because when the country has a bright economic outlook, investors will automatically be interested to invest their funds in the stock market of the country concerned. This would encourage the bullish period that will encourage the movement of stock indices. Likewise, when the perceived atmosphere of gloomy economy, would be also reflected in the stock index will go down.

1.2 Research Limitation

Based on the gap between the actual facts and the results of previous research, the scope of this study will analyze macroeconomic variables consisting of the deposit interest rate futures rupiah, the rupiah exchange rate against the dollar, exports, imports, world gold prices, oil prices and JCI Indonesia Stock exchange, which in this study, the deposit interest rate futures rupiah, the rupiah exchange rate against the dollar, exports, imports, world gold price, oil price as the independent variable and the dependent variable is represented by JCI in Indonesia Stock exchange 2006-2015 period. The period of research conducted over the past 10 years that is expected to provide more accurate results in researching the influence of interest rates on time deposits rupiah, the rupiah exchange rate against the dollar, exports, imports, world gold prices, oil prices against JCI

1.3 Problem Formulation

Based on the description of the background issues that have been raised, the researchers drew a formulation problem in this study, is as follows:

1. Does the BI rate negatively affect JCI in period of 2006-2015?
2. Does the exchange rate negatively affect JCI in period of 2006-2015?
3. Does the export positively affect JCI in period of 2006-2015?
4. Does the import positively affect JCI in period of 2006-2015?
5. Does the world gold price positively affect JCI in period of 2006-2015?
6. Does the world oil price positively affect JCI in period of 2006-2015?

1.4 Research Purposes

The research was done because of the gap between the results of previous research with facts that need to be done further research on macro-economic factors that affect stock prices as measured by JCI. This study aimed to investigate the effect of interest rates, exchange rates, exports, imports, world gold prices, and world oil prices on JCI period 2006-2015.

1.5 Benefits Research

1.5.1 Theoretical Benefits

The results of this study are expected to be used to contribute to the investor and business entities that exist particularly regarding factors interest rate, exchange rate, export, import world oil price, and the world gold price, which affects JCI and how each theory influence one with the other. In addition the results of this study are also expected to be used as a reference for further research in the future.

1.5.2 Practical Benefits

The results of this study are expected to be useful for:

1. The first for the enterprise as a source of information for enterprises of the magnitude of the impact of macroeconomic factors on the performance of the company's stock so that it can be taken into consideration in the decision to increase the performance of stocks in order to remain attractive to investors.
2. both for investors as additional information that may be used as consideration for investors in the process of making investment decisions wisely profitable in the stock market.
3. for subsequent research as a source of information and reference that can provide theoretical and empirical information to parties who want to do further research on topics that are still relevant, both advanced research and to complete subsequent research as well as basic research expansion particularly those associated with macro variables associated with JCI.

1.6 Writing Organization

This research report consists of six chapters, where each chapter consists of several sub-chapters which are interconnected. The outline of this research will be described as follows:

CHAPTER I : Introduction

This chapter outlines the background issues that underlie the research, problem identification, problems limitation, problems formulation, objectives and benefits of the research, as well as the writing organization of the thesis.

CHAPTER II : Literature and Development Hypothesis

This chapter describes the assessment / review of the relevant literature for this study came from journals, books, and other scholarly literature, framework of thinking and hypothesis proposed.

CHAPTER III : Research Methods

This chapter outlines the types of research, variables and operational definitions used in the study, types and sources of data, population and sample, data collection procedures, as well as the methods of data processing.

CHAPTER IV : Results and Discussion

This chapter discusses the data view of research that has been done along with the discussion of the results obtained from the collection of the data that has been obtained.

CHAPTER V : Conclusion

This chapter discusses the conclusions of the research that has been done, the implications of the research that has been conducted, and recommendations for future research.