

CHAPTER I

INTRODUCTION

1.1. Background of the Study

Investment is an investor's effort to get results that will be consumed in the future (Akbar, 2017). Investments that offer a high rate of return generally involve a high level of risk. The high and low risk characteristics of an instrument, particularly in the Indonesian capital market, are heavily influenced by the country's economic and political variables, as well as the condition of the company. As a result, it is preferable for investors to do a study of the investment instrument prior to making a choice to invest. This analysis is carried out to minimize the existing risks.

Investors in the stock market require information that is critical to the growth of stock exchange transactions. This is critical for investors to consider when developing strategies and making capital market investments. Investors use the capital market to channel idle funds or to invest in order to profit from the difference between the purchase price and the profits distributed to investors by a company.

Capital demand in the business world tend to increase over time. Capital demand is increasing as a result of the increased need for revenue-generating activities. The benefits accruing to both issuers and investors have fueled the rise of the capital market. According to Otoritas Jasa Keuangan (2021), as of 2020, there are 452 sharia stocks in Indonesia, increased by 11.05% from 2018 (407). This

development was followed by the establishment of the Jakarta Islamic Index (JII), one of the media outlets created by the Indonesia Stock Exchange (IDX) in collaboration with Danareksa Investment Management to address information needs regarding Islamic investment. This index was created in response to the growing economic development of Moslems, particularly in countries that the majority of the population is Moslem.

The Jakarta Islamic Index (JII) acts as a benchmark for sharia-compliant stocks' performance. This index is meant to increase investor confidence in investments based on sharia. Numerous variables were evaluated in this study, including inflation rate, money circulation, and Dollar exchange rate, and they were then applied as research variables to determine how the Jakarta Islamic Index's stock prices changed.

The Jakarta Islamic Index has included 30 Islamic stocks to reflect the capital market since mid of year 2000. Even though the Jakarta Islamic Index is a relative newcomer to the Indonesian capital market sector, its output has considerable potential. The critical nature of macroeconomic conditions, notably the Islamic capital market, the output of which is reflected in the JII, which is influenced by macroeconomic variables such as inflation rate, money circulation, and Dollar exchange rate, all of which fluctuate over time. JII is a sharia-compliant stock index that began trading on July 3, 2000, on the Indonesian capital market. The JII is solely comprised of the 30 most liquid Islamic stocks on the Indonesia Stock Exchange. Companies that are members of the JII are examined twice a year

(May and November), in line with the *Otoritas Jasa Keuangan (OJK) Daftar Efek Syariah (DES)* schedule review.

The value of the Rupiah in relation to the United States (US) Dollar is one of the factors determining the Indonesian stock index's movement. Exchange rate stability is critical for businesses engaged in export-import operations, which cannot be separated from the use of foreign currency, specifically the US Dollar, as a trade tool or frequently traded currency. Uncontrolled exchange rate fluctuations can have a negative impact on the financial performance of companies listed on the capital market. When the Rupiah depreciates against the Dollar, imported goods become more expensive, particularly for businesses that rely heavily on imported goods. Increased imports will automatically increase production costs, which will have a negative impact on company profits, as well as on company stock price movements, which will result in a weakening of the stock price index movement.

It's difficult to expect the stock market to become more passionate when economic conditions are sluggish and exacerbated by an abnormally high inflation rate. Such phenomena will negatively affect investors' enthusiasm for investing, allowing them to reinvest previously invested funds in alternative investments. As a result, the company's profitability will suffer, resulting in a decrease in the stock price.

Money in circulation in a community represents the country's economic condition, which in turn affects the level of investment in that country, as investors will always prioritize the condition of the country's economy. The relationship between money circulation and investment is quantified by measuring how much

money is circulated in society and how much of it is used to invest in conventional and Islamic stocks.

Several previous researchers conducted research on the analysis of the impact of macroeconomic variables on the Jakarta Islamic Index which showed different results phenomena, so it is necessary to do further research on this matter. The result of research conducted by Akbar (2017) show that inflation rate has a significant impact toward JII, this is different from Aniq (2015) research which shows that inflation rate has no significant impact toward JII. Furthermore, the exchange rate has a positive impact according to Virizky (2018) research and negative impact based on Aniq (2015) research. Then, the result of Aniq (2015) research show that the money circulation has positive and significant impact toward JII, the same with Wibowo (2018) and Ningsih (2018) research.

With the existence of several influences of macroeconomic variables and inconsistency of the previous research result, the researcher wants to discuss more deeply through the research that will be carried out with the title "**THE IMPACT OF INFLATION RATE, MONEY CIRCULATION, AND DOLLAR EXCHANGE RATE TOWARD JAKARTA ISLAMIC INDEX.**"

1.2. Problem Limitation

Based on the background of the study above, this research is going to be limited in:

1. The dependent variable is Jakarta Islamic Index (JII).
2. The independent variable are inflation rate, money circulation, and Dollar exchange rate.
3. The research is using 2017-2020 period.

1.3. Problem Formulation

Based on background and identification of problems above, the formulation problems are as follows:

1. Does inflation rate partially have significant impact toward Jakarta Islamic Index?
2. Does money circulation partially have significant impact toward Jakarta Islamic Index?
3. Does Dollar exchange rate partially have significant impact toward Jakarta Islamic Index?
4. Do Inflation rate, money circulation, and Dollar exchange rate simultaneously have significant impact toward Jakarta Islamic Index?

1.4. Objective of the Research

Based on problems formulation and background of the study mentioned above, the objective of the research to achieved are:

1. To determine whether inflation rate significantly impact Jakarta Islamic Index.
2. To determine whether money circulation significantly impact Jakarta Islamic Index.

3. To determine whether Dollar exchange rate significantly impact Jakarta Islamic Index.
4. To determine whether inflation rate, money circulation, and Dollar exchange rate significantly impact Jakarta Islamic Index.

1.5. Benefit of the Research

1.5.1 Theoretical Benefit

Theoretically, the result of this research is expected to provide additional information and knowledge for academics regarding the impact of inflation rate, money circulation, and Dollar exchange rate toward JII. The result of this research can also be used as a reference for future researchers who are interested in conducting a research of related topic.

1.5.2 Practical Benefit

The results of this study are expected to provide benefits for the parties involved:

1. Authors

The results of this study are expected to add the knowledge and experience about non-bank Islamic financial institutions, especially in changes in the JII so that the author can have a better decision making and having more consideration before doing any investment in stock market.

2. Academic

The results of this study are expected to be useful and provide additional insight and knowledge, especially those related to knowledge of the impact of macroeconomic conditions toward JII for all academic.

3. Government

The result of this study is expected to be useful and as a matter of consideration for the government and other parties involved in making policies that will be taken in connection with the movement of JII on the IDX. So, they can have more consideration to take and have a better decision making.

4. Businesses

This research is expected to provide interesting information and become one of the inputs in considering investment decisions, either for new investor or experienced investor, so that they can have a better decision making.

