

## CHAPTER I

### INTRODUCTION

#### A. Background

The current economy is rapidly expanding in both the global economy and the domestic economy, including one of the developing economies leading the way in its economic sector with this state of affairs at all emerging financial institutions to meet the needs of economic actors, whether banking institutions, insurance institutions, One of the most advanced financial institutions to the Indonesian economy is the capital market sector. According to Law No. 8 of 1995, the capital market is a container for the activities concerned with public offering and securities trading, public companies relating to securities issued, and securities-related institutions and professions. Capital market activities in the Indonesian economy contribute greatly to the resilience of financial institutions as well as industry institutions, besides the capital market is also able to become an instrument that reflects the wealth of Indonesia, better in the Indonesian capital market will be increasingly also the Indonesia economy because the capital market sector is the domain to make institutions become more productive economic that help the Indonesian economy to be better.

In general, the regulation of capital market activities is contained in law No.8 of 1995 (UUPM). Article 1 states that the capital market is an activity equal to the supply and trading of securities, the public company relating to the securities in which it is issued, as well as institutions and professions related to

securities. The role of capital market is very big for the economic activities of Indonesia because it can be a solution for interested parties to channel the funds correctly. So in this case the capital market is one alternative to invest by allocating money or wealth of society in conducting economic activities. The capital market acts as a intermediary between investors and government institutions or companies through trading instruments both in the long term and short term.

In capital market also runs two functions at once, namely financial and economic functions. In terms of capital market financial function as a facilitator who can move funds from parties who have excess funds to parties who need funds. From the side of the Investors expect the allocated funds will generate returns in return for investment. Meanwhile, from the side of the party who needs funds with the money from the investors allow them to invest without having to wait for the availability of funds from the results of the company's operations. In addition, the capital market is also an indicator of the stability of the country's economy. Capital markets have an important role in investment activities for investors.

According to Sumitro (2004) capital market is one means to make investments. The capital market is the same as the capital market in general, where the meeting between the seller and the buyer with the object being traded is the right and ownership of the company and the letter of debt of the company. Meanwhile, according to umam (2013) quoted from Darmadji and Fakhrudin

(2006) basically the capital market is a market for long-term financial instruments that can be traded, both in the form of debt and capital.

The presence of capital markets in Indonesia certainly has a major influence on the economy of the country whose influence can be felt directly and indirectly, in general, the capital market in Indonesia is classified into two types namely conventional capital market and syariah-based capital markets. Conventional capital market first present in Indonesia before in the form of syariah capital market, but now Indonesia already has syariah capital market and the first in the issuing of mutual funds sharia by PT. Danareksa Investment Management on July 3, 1997. Currently in Indonesia has started developing syariah-based financial instruments such as sharia bank, sharia capital market, and commodity sharia market. In addition, during the global crisis in America and Europe, the facts show that sharia-based economics and finance are proven to be able to survive and be socially friendly and also have ethics and more in favor of lower middle class (Mulyani, 2014).

Thus, based on the Capital Market Law of Indonesia, capital market activities can be done with the rules of UUPM with no conflict with the principles of sharia. The scope of business activities of issuers that are contrary to Islamic sharia principles are (Huda and Nasution, 2008): Gambling business which is classified as gambling or trading is prohibited, the efforts of conventional financial institutions (Ribawi) including banking and insurance, Enterprises that produce, distribute and trade food and beverages classified as harm and the

enterprises that produce and provide goods or services that are destructive to morals and harm

In the stock market known as the Jakarta Stock Exchange (currently known as the Indonesia Stock Exchange) is a container to raise funds from investors to be distributed to parties who need funds. Exchange is a building or room that is designated as an office and securities trading activity, while securities that are categorized as securities are stocks, bonds or other evidence commonly known as securities (Sumitro, 2004), Or it could also be called as a market that connects between purchases with the sale of securities firms already listed on the exchange itself. In addition Stock Exchange and also money market is the main source of external capital for companies or government. Transactions that occur in this exchange is a transaction based on conventional and sharia-based transactions.

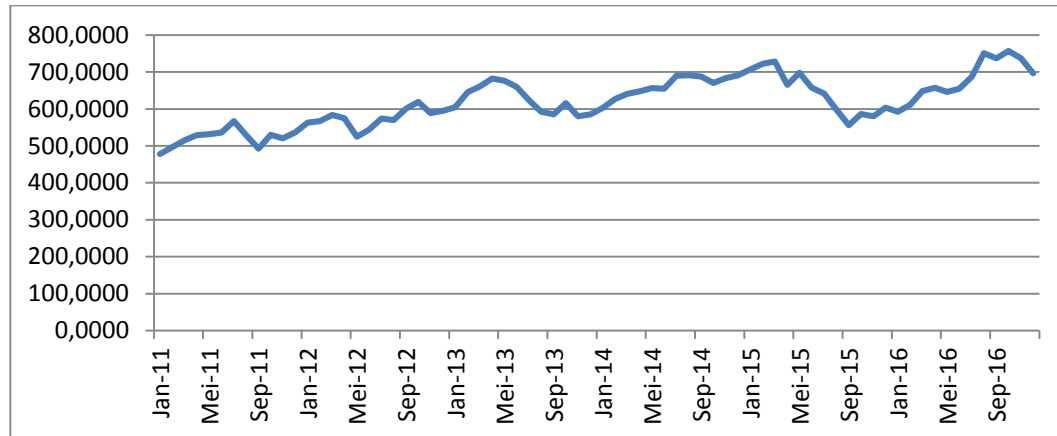
In the world of the capital market is familiar with the term stock price index. Stock price index is an indicator or a reflection of stock price movements. Index is one of the guidelines for investors to invest in capital markets, especially stocks. Where all shares traded are at Indonesia Stock Exchange (IDX). To provide more complete information about the development of the stock to the public, IDX spread the data of stock movement through various media. One indicator of such stock movement is the stock price index. Currently there are several indices listed on the BEI. In general, the capital market is known as the Composite Stock Price Index (IHSG). IHSG is the index of the total shares of the

listed companies on the Stock Exchange, both common stock and preferred stock. In addition to IHSG there is also the Jakarta Islamic Index (JII).

Then, BEI cooperated with PT.Danareksa Investasi to establish the Jakarta Islamic Index (JII) on 3 July 2000 which aims to guide investors who want to invest their funds in sharia. With the publication of JII provides a way out for investors who are eager to invest in sharia and avoid the things that are gharar and not syariah. On April 18, 2001, for the first time the National Council of Indonesian Ulema Council (DSN-MUI) issued Fatwas directly related to the capital market, namely Fatwa Number 20 / DSN-MUI / IV / 2001 on Guidelines for the implementation of Investment for Islamic Mutual Funds. Further sharia investment instruments in the capital market continued to increase with the presence of Islamic bonds PT.Indosat Tbk in early September 2002. This instrument is the first Islamic bond and contract in use is mudharabah ([www.ojk.go.id](http://www.ojk.go.id)).

Generally, all stocks that can be categorized as Sharia shares are listed in the List of Sharia Securities (DES). There are several syariah stock indexes, one of them is the Jakarta Islamic Index (JII). JII is a stock index containing 30 stocks that meet the criteria of sharia (List of Sharia Securities issued by Bapepam-LK) taking into account the best market and liquidity. In addition to the criteria of sharia liquidity factor and market capitalization into consideration in choosing the shares included in the JII index. Where liquidity and market capitalization is larger than other sharia shares and each semester is evaluated. Figure 1.1 represents the movement of JII, starting from January 2014 until December 2016.

JII index experiencing upward movement trend. However, the rising trend of the movement with the turmoil that occurred in JII.



Source: [www.duniainvestasi.com](http://www.duniainvestasi.com) (Data processed)

**Figure 1.1 JII Movements (Jan 2011- December 2016)**

Description: JII is the Jakarta Islamic Index

The movement of JII stock index is influenced by various factors. External factors in the form of monetary indicators have a significant influence for the sustainability of capital market performance. Stable economic conditions are always expected by investors, as stable economic conditions affect the company's performance. For the sake of the creation of a good investment cycle in need of conducive conditions on macroeconomic monetary sector. Unstable economic turbulence could be the cause of less conducive investment cycles. The ability of investors to understand and forecast future economic conditions will be very useful in making profitable investment decisions. For that, an investor should consider some macroeconomic indicators, especially the monetary sector that can help investors in making investment decisions. There are several economic

indicators in which the movement has an impact on the Capital market sector, especially the JII index, among which are the fed rate, the price of gold, inflation and the money supply.

The fed rate greatly affects the global economy especially in the capital market. Any change in the increase or decrease in the fed rate will affect the world capital market including the Indonesian capital market, both conventional and sharia JII including one of the index that felt the impact of the change of the fed rate.

According to Misgianti and Zuhroh (2009), The fed rate is the central bank of the United States responsible for monitoring and responding to economic developments throughout, and the stock market is part of the economy. According to Antonio, Hafidhoh and Hilman (2013), the Fed rate is set by The Federal Open Market Committee (FOMC). Fed interest rates are determined by the economic conditions occurring in the United States. The Federal Reserve publication, states that the economy of the U.S. and the global economy is connected to various channels. In addition to the American interest rate, gold prices can also affect the movement of Jakarta Islamic Index.

In addition the gold prices is also one of the instruments that can affect the movement of the Indonesian economy, especially in capital markets both conventional capital markets and sharia capital markets. In view of Islam Gold and silver are a very fair measure of money for the economy. In the capital market. gold prices tend to be stable and rising making people think investing in

gold has a lower risk with high enough returns. When gold prices rise, investors tend to sell gold for profit. Conversely, when gold prices fall then investors tend to buy gold as an investment tool. when the gold price rises then the investors tend to sell the gold commodity because it is more profitable and switched investment to JII, so the rise in gold price can be one of the causes of investors move investment to JII after selling gold commodities, from the shift of the investors it will have an impact also on movement of JII index. but different from the research done by the previous reasearchers that gave the assumption: If investors are more interested in investing in gold commodities then this will affect the movement of the capital market, especially in the JII index. When investors shift their investment portfolios to gold instruments it will lead to a decrease in investment activity in the capital market by investors this may trigger a decrease in stock price return index (sunariyah, 2006). In the previous research done by twite (2002) and lawrence (2003) proves empirically the influence of gold price to stock price, the higher the gold price, the lower the stock price index return. Variable macro economy is a variable that can affect the stock price movement especially JII, macroeconomic factors that will be discussed in this research is variable Inflation and also mney supply.

In the monetary sector the variable of inflation is a factor that can affect to all aspects of the economy, this applies to the capital market of Indonesia. Inflation can trigger turmoil in capital market activity. High inflation leads to a decrease in the profits of a company that cause the equity effect to be less competitive (Robert Ang, 1997). With high inflation, the company's operational



costs will increase, so that the company's profit will decrease and affect the less interested investors to invest into the company, thus causing the stock price to decline (Sadono, 1997). inflation will further lower the level of corporate profitability. The fall in corporate earnings will be bad information for traders on the stock market and will result in lower stock prices.

In previous research conducted by Utami and Rahayu (2003), empirically proves the effect of inflation on the stock price index return, the higher the inflation rate the lower the stock price index return. The results are also in accordance with the results of research conducted by Lestari (2005); Amperaningrum and Agung (2011) and Haque and Sarwar (2012) who found a significant negative effect of inflation on stock price index returns.

Misgiyanti and Zuhroh (2009), high inflation pressures and rising commodity prices in 2008 will remain a threat and a negative sentiment for Indonesia's capital market which could lead to high volatility of stock prices in the Indonesia Stock Exchange. On the positive side, this can be seen as an opportunity to accumulate stocks that have good fundamental performance at low prices. In addition, macroeconomic factors that can affect the movement of JII is the money supply.

Variable macroeconomic monetary of money supply is also an indicator that can affect the capital market in Indonesia both conventional and sharia-based capital markets. This indicator is able to give impact to capital market activity in Indonesia. In this case, the researcher uses the indicator of the money supply

(M2). The amount of money in circulation is closely watched by economists and central banks developing policies around it.

In the previous literature research is related to the influence of macroeconomic monetary indicators on capital markets in Indonesia. From the previous research results conclusions that are entirely dissimilar, but there is little difference. Researchers produced several macroeconomic indicators affecting significant and insignificant monetary, so there is a gap of some of these studies. Some earlier researchers concluded that the fed rate affects significantly against JII but some researchers also have different conclusions. Likewise with the monetary variables of gold prices, inflation and the amount of money that occurs significantly different and not significant against the JII. So here the author wants to use several different variables and different years.

This study was conducted to continue the previous study. With the motivation of this research will produce something useful not only for personal authors, but also for the wider community. This research is a development of previous studies. One of the previous studies was a study conducted by Antonio, Hafidhoh and Hilman (2013) entitled "Sharia Capital Market Volatility and Macroeconomic indicators: Comparative Study of Malaysia and Indonesia.

The difference of research that will be done by researcher with research of Antonio, Hafidhoh and Hilman (2013) is dependent variable where chose jakarta islamic index (JII) and FTSE bursa malaysia hijrah shariah index (FHSI), the two variables are compared to how big macro economic indicators affect both

variables, the differences are also found in the independent variables, choose Fed rate, crude oil price, Dow Jones Index, interest rate, exchange rate and inflation as independent variables the data used monthly data from January 2006 to December 2010 while the data in this study used monthly data from January 2011 to December 2016.

Based on the background description of the problems described above, the researchers are interested to examine the movement of JII index. Therefore the researcher intends to continue the previous research entitled "ANALYSES DETERMINANTS OF VOLATILITY ON JAKARTA ISLAMIC INDEX (JII)".

#### **B. Limitations of Research Problems**

Here are some restrictions on the research, there are many factors that can affect the Jakarta Islamic Index, in this case the authors analyze the variables of the Fed rate, the price of world gold, inflation and also the money supply in 2011 until 2016 for the check. Given the limitation of this problem aims to address the possible problems that occur. The following problem limits:

1. Dependent variable in this research is Jakarta Islamic Index
2. The limited timeframe ranges from January 2011 to December 2016, using time series data.
3. Independent variables are limited in use, in this study the authors use four independent variables namely The Fed rate, world gold prices, inflation and also the money supply

### **C. The Research Problem**

Based on the description of the background of the above problem can be in node formulation of the problem as follows:

1. Does the fed rate affect the movement of the Jakarta Islamic index?
2. Does the world gold price affect the Jakarta Islamic Index?
3. Does inflation affect the jakarta Islamic Index?
4. Does the money supply affect the Jakarta Islamic Index?
5. Does the fed rate, the price of gold, inflation and money supply affect the Jakarta Islamic Index simultaneously?

### **D. Research Purposes**

1. To determine the impact of the fed rate variable on the Jakarta Islamic Index.
2. To know the impact of gold price variable on Jakarta Islamic Index.
3. To know the impact of variable inflation on Jakarta Islamic Index.
4. To know the impact of variable money supply to the Jakarta Islamic Index.
5. To ensure whether the variable rate of the fed rate, the price of gold, inflation and the money supply simultaneously affect the Jakarta Islam index.

## **E. Research Benefits**

Benefits of the authors get in doing this research is able to measure how much the independent variable the fed rate, world gold prices, inflation and the amount of money affecting the influence of jakarta islamic index. As for some benefits of this research are:

### **1. For Academics**

The results of this study can add insight and literature in macroeconomics and capital markets both sharia and conventional. And useful in theoretical development of science. This research can also be a reference for other researchers to develop the research.

### **2. For investors**

For investors (especially stock investors) the results of this study can be useful in making decisions to make investments. Investment decision-making by looking at the macroeconomic indicators in this study. And investors can take the decision to invest in Islamic stock in this case the Islamic Islamic Index (JII) or in conventional.

### **3. For the government**

For the government as the policy holder who wants to always create a conducive macroeconomic and capital market climate, the results of this research can be a consideration and as a fact for clues in the assessment of the effectiveness of the policies made.

## **F. Research Flow**

To facilitate the understanding of this research, the author will give a brief description and divide this research into several chapters in a structured and systematic manner as follows:

- 1. Chapter I**, introduction. In this chapter the author describes the background research, research objectives and objects that will be in carefully and develop the object of research.
- 2. Chapter II**, literature review. In this chapter will be discussed about the previous studies and theories that have relevance or relationship with this research, which is about Jakarta Iskamic Index, The Fed Rate, The Price of Gold, Inflation and also the Money Supply. In this chapter will be discussed about previous research that has the same or different results with this study. Also in this chapter will be the authors hypothesis.
- 3. Chapter III**, data research and methodolody. In this chapter will be explained briefly about data retrieval techniques and methodologies that will be used in this study is multiple regression.
- 4. Chapter IV**, overview on Chapter four will explain the general description and overview of JII index and each independent variables.
- 5. Chapter V**, in this chapter will discuss the results of research and describe in general the results of the research object. Hypothetical tests and short and integrated interpretations.
- 6. Chapter VI**, conclusion. In this chapter will be discussed in detail the results of the data if using multiple regression.