
Aminatus Zahriyah
Doctoral student of economics at the University of Jember
Kalimantan street Tegalboto,37
+6285736009796
aminatus.ria23@gmail.com

Ahmad Musthofa Lutfiyanto
Islamic economics student at UIN KH Siddiq
mataram street number 01, mangli
+6281217566327
ahmadfiyann@gmail.com

ABSTRACT

Economic growth is one of the indicators of successful development in an economy. One indicator of economic growth is the stock market. The stock market is a place where people with excess funds (investors) meet companies that need funds (issuers). The purpose of this research is: 1) To determine whether the inflation variable has a significant influence on the Composite Stock Price Index in 2014-2019. 2) To determine whether the BI Rate variable has a significant influence on the Composite Stock Price Index in 2014-2019. 3) To determine whether the Money Supply variable has an influence on the Composite Stock Price Index in 2014-2019. 4) To determine whether the exchange rate variable has a significant influence on the Composite Stock Price Index in 2014-2019. 5) To describe the magnitude of the shock generated by the variables of inflation, BI Rate, Money Supply, and exchange rate on the Composite Stock Price Index in 2014-2019. To identify these issues, this study is a quantitative research and uses the Vector Error Correction Model (VECM) method to examine short-term relationships and employ cointegration tests to identify indications of long-term relationships. Based on the research results, it can be concluded that: 1) Based on the short-term VECM test, the estimated inflation variable has a positive but insignificant effect. Then, the long-term estimation results show that the inflation variable has a negative but insignificant effect on the IHSG variable. 2) The short-term estimation results for the BI Rate variable have a negative but insignificant effect on the IHSG. Then, the long-term estimation results show that the BI Rate variable has a negative but insignificant effect on the IHSG variable. 3) The Money Supply variable has a significant negative effect on the IHSG in the short term. The long-term estimation results show that the Jumlah Uang Beredar variable has a significant negative effect on the IHSG. 4) The short-term estimation results for the nilai tukar variable have a positive but insignificant effect on the IHSG. Then, the long-term estimation results show that the nilai tukar variable has a positive and significant effect on the IHSG. 5) Based on the IRF test to determine shocks on each variable, the BI Rate variable shows a tendency for thin shocks above the horizontal line, indicating that the BI Rate variable has a permanent positive impact.

Keywords : BI Rate, Exchange Rate, Composite Stock Price Inde., Inflation, Money Supply..

1. INTRODUCTION

Economic growth is one indicator of successful development in an economy. The progress of an economy is determined by the amount of growth resulting from changes in national output. Economic growth is a process of increasing output per capita in the long run. The emphasis is on three aspects, namely: process, output per capita and long term. Economic growth is a process, not a snapshot of the economy at one time. Here we look at the dynamic aspects of an economy, namely how an economy develops or changes over time. The emphasis is on the change or development itself. One indicator of economic growth is the capital market. The capital market is a meeting place for people who have excess funds (investors) and companies who need funds (issuers). Then in the capital market there is an economic activity called investment. Investing in the capital market is a promising financial investment vehicle with a high rate of return, but high returns on stock investment will also be accompanied by high risks, so it is necessary to pay attention to the various factors that influence the movement of an issuer's shares listed on the stock exchange. Indonesia stock exchange. According to Tandelin, stock is a certificate that shows ownership of a company. Shares are traded on the capital market (stock market) or what is known as the stock exchange (stock exchange). (Todaro, 2000).

2. OBJECTIVE

Based on the explanation above, this research was conducted with the following objectives:

a. To find out the inflation variable has a significant influence on the Jakarta Composite Index in 2014-2019.
b. To find out the BI Rate variable has a significant influence on the Jakarta Composite Index in 2014-2019.
c. To find out that the variable Money Supply has a significant influence on the Jakarta Composite Index in 2014-2019.
d. To find out the rupiah exchange rate variable has a significant influence on the Jakarta Composite Index in 2014-2019.

e. To find out how much shock the inflation variable, the BI Rate, the Money Supply and the rupiah exchange rate have caused to the Composite Stock Price Index in 2014-2019.

3. RESEARCH METHODS

3.1 Approach and Type of Research

This type of research is quantitative research, namely the data used is secondary data in the form of monthly time series data from January 2014 to December 2019. There is the reason the researchers used monthly data from 2014 to 2019. First, choosing a long time span, namely 6 years divided per month into 72 sample time series data, is good enough for testing. In addition, with a fairly long time span, it is expected to minimize errors in estimation.

3.2 Data Collection Techniques and Instruments

The most important part in the research process is with regard to research data. Research data is needed because it relates to the process of collecting information and then the data can be processed and analyzed. From the results of this analysis the data can be translated and interpreted as research conclusions. The data collection techniques and instruments in this study used the analytical method using eviews.

Sources of data were also obtained from agency pages/websites related to the research topic and added other supporting data such as journals and reports on the Indonesian economy as reinforcement for this research.

Table 1.2. Data source

<table>
<thead>
<tr>
<th>Variable</th>
<th>Data source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation Rate</td>
<td><a href="http://www.bi.go.id">www.bi.go.id</a></td>
</tr>
<tr>
<td>BI Rate</td>
<td><a href="http://www.bi.go.id">www.bi.go.id</a></td>
</tr>
<tr>
<td>Total Money Supply</td>
<td>Statistics Portal</td>
</tr>
<tr>
<td></td>
<td>Trade30</td>
</tr>
<tr>
<td>Rupiah Exchange (Exchange Rate)</td>
<td>Statistics Portal</td>
</tr>
<tr>
<td>Stock Price Index Composite (IHSG)</td>
<td>Yahoo Finance</td>
</tr>
</tbody>
</table>

Source: Bank Indonesia, Statistics Portal and Yahoo Finance

3.3 Data Analysis

This study uses a quantitative analytical method. The analytical tool used in this study is the Vector Error Correction Model (VECM) method which aims to look at short-term relationships and uses cointegration tests to see indications of long-term relationships. VECM is a form of restricted Vector Autoregressive (VAR).

To make it easier to do calculations for each test, the researchers used an economic analysis tool in the form of eviews 7 software.

- a. Stationary Data Test
- b. Optimum Lag Determination
- c. Cointegration Test
- d. Vector Error Correction Model (VECM)
- e. Impulse Response Function (IRF)
- f. Variance Decomposition (VD)

4. Discussion

Up to the point of discussion regarding the influence of the variables mentioned above. Basically the economic development of a country certainly experiences ups and downs (cycles) in which in certain periods the economy grows rapidly and in other periods it grows slowly. In order to manage and influence economic development so that it can take place properly and stably, the government or monetary authority usually takes steps known as macro and micro economic policies. The essence of this policy is basically the management of the macro and micro-scale of the economy so that it leads to conditions of balance with a sustainable and stable level of economic growth. In this research, researchers examine monetary policy as one of the macroeconomic policies that are generally implemented in line with the business cycle. In this case, monetary policy applied to conditions where the economy is experiencing very rapid development is certainly different from monetary policy applied to conditions where the economy is experiencing a depression or slowing development. In the literature review, there are two types of monetary policy, namely expansionary monetary policy and contractionary monetary policy. Expansionary monetary policy is a monetary policy...
that is aimed at encouraging economic activity, which is carried out, among others, by increasing currency circulation and circulation, on the other hand, contractionary monetary policy is monetary policy that is aimed at slowing down economic activity by reducing currency circulation and circulation. Monetary policy that is implemented in conditions where the economy is experiencing very rapid development is certainly different from monetary policy that is applied in conditions where the economy is experiencing a depression or slowing development. In the literature review, there are two types of monetary policy, namely expansionary monetary policy and contractionary monetary policy. Expansionary monetary policy is a monetary policy that is aimed at encouraging economic activity, which is carried out, among others, by increasing currency circulation and circulation, on the other hand, contractionary monetary policy is monetary policy that is aimed at slowing down economic activity by reducing currency circulation and circulation.

The research discussion by the researcher is monetary policy in an open economy, but the researcher will briefly explain monetary policy in a closed economy. In a simple and closed economy, when the economy of one country does not interact with the economies of other countries, the formulation and implementation of monetary policy can be carried out more simply. This is due to various international economic variables, such as trade, capital flows, exchange rates and interest rates which have no effect on the economy. However, in this era of globalization it can be said that there is no country that has a closed economic system, so that the following discussion will be focused on. on monetary policy in an open economy where international economic variables such as,

A. The relationship between the BI Rate and the Jakarta Composite Index

In previous research by Belinda Fortuna, evidence that there is a relationship between stock prices and interest rates is through the monetary policy mechanism of the interest rate channel by Bank Indonesia. Interest rates can affect the level of stock prices directly. An increase in interest rates by Bank Indonesia will encourage investors to withdraw the level of stock assets they have, which will be replaced by investment in deposits. Generally, the interest rate has a negative relationship with the stock price level. High interest rates will give a negative signal to stock prices.

The results of estimation data by researchers using the VECM approach show that the BI Rate has a reciprocal relationship but not significant in a certain period, then in the short term the BI Rate variable has a negative but not significant effect on the JCI, the estimation results show a t-statistic of -0.62386 less from t-table 1.66724 with a coefficient of -56.07669. The long-term estimation results of the BI Rate variable have a negative but not significant effect on the JCI variable at a significance level of 5 percent with a t-statistic of -1.45923 less than a t-table value of 1.66724.

Bank Indonesia issued a formula for the BI Rate which was quite high, namely 7.50 percent in 2014/2015. On the other hand, graphically, the 2014/2015 JCI experienced a drastic decrease to the level of 4,223.78 and the average JCI was in the range of 4,446.78. It can be seen that the majority of investors release the shares in the portfolio. Weston and Brigham argued that higher interest rates would make the economy go down, increase interest costs, and would reduce company profits and cause investors to sell their shares and then switch to investing in the deposit market. The reduced value of money will reduce the interest of investors in investing in financial assets, which will then reduce the value of the stock price. Then the shock from 2014 to 2019 the shock given by the BI Rate to stocks was quite positive, but seen in the first period Bank Indonesia provided a fairly high interest rate formula in the range of 7.50 percent resulting in quite a slight shock above positive and almost touching negative but the JCI is quite strong against these shocks and other factors as influences in the economy (cateris paribus). In the 3rd to 10th period the shock given by the BI Rate to the JCI reaches balance. Variance Decomposition assesses the magnitude of the impact and influence by the variables of the 2nd period the BI Rate variable contributes 0.15 percent, the 3rd period contributes 1.18 percent and is the largest contribution.

In practice, the transmission of monetary policy through the interest rate channel can be seen as the first channel that directly responds to changes in the monetary policy stance through changes in short-term interest rates in the money market. The interest rate channel is expected to strengthen further with the implementation of the TTF as Bank Indonesia's monetary policy framework since July 2005, in which the policy interest rate is used as the main instrument.

B. The Relationship between the Money Supply and the Composite Stock Price Index

The relationship between stock prices and the money supply is found in the portfolio transaction theory. Portfolio transaction theory is a theory that emphasizes the role of money as a store of value. According to this theory, people hold money as part of their portfolio. Money provides a different combination of risk and return than other assets. Money usually provides a safe return, while stock and bond prices fluctuate a lot. So some economists suggest holding money as part of their optimal portfolio. 121 Interpretation of research results on the variable Amount of Money in circulation, the variable Amount of Money has a significant relationship and influence on the JCI with a probability value of less than <0.05, namely 0.0281, conversely, the JCI has a relationship and has a significant effect on the Money Supply with a probability value of less than <0.05, namely 0.0444. Variables of the Amount of Money in the short term

285
and long term have a significant negative effect on the JCI. According to Johnson and Schnabel, changes in the amount of money in circulation can cause changes in the movement of the stock price index value. First, changes in the total money supply will affect changes in goods and services. A company's income is very responsive to changes in the value of demand, from this there is a change in the value of the company's stock price. Changes in the balance will make investors shift their investment instruments from investments in the form of holding cash to investments in other forms of assets. Variables of the Amount of Money in the short term and long term have a significant negative effect on the JCI. According to Johnson and Schnabel, changes in the amount of money in circulation can cause changes in the movement of the stock price index value. First, changes in the total money supply will affect changes in goods and services. A company's income is very responsive to changes in the value of demand, from this there is a change in the value of the company's stock price. Changes in the balance will make investors shift their investment instruments from investments in the form of holding cash to investments in other forms of assets. Variables of the Amount of Money in the short term and long term have a significant negative effect on the JCI. According to Johnson and Schnabel, changes in the amount of money in circulation can cause changes in the movement of the stock price index value. First, changes in the total money supply will affect changes in goods and services. A company's income is very responsive to changes in the value of demand, from this there is a change in the value of the company's stock price. Changes in the balance will make investors shift their investment instruments from investments in the form of holding cash to investments in other forms of assets. Variables of the Amount of Money in the short term and long term have a significant negative effect on the JCI. According to Johnson and Schnabel, changes in the amount of money in circulation can cause changes in the movement of the stock price index value. First, changes in the total money supply will affect changes in goods and services. A company's income is very responsive to changes in the value of demand, from this there is a change in the value of the company's stock price. Changes in the balance will make investors shift their investment instruments from investments in the form of holding cash to investments in other forms of assets.

C. Relationship of Inflation and the Jakarta Composite Index

Erving Fischer explained the relationship between inflation and stock prices through interest rates. Because in some economic systems the real interest rate represents the level of public spending ability. So if the inflation rate is expected to rise, the nominal interest rate will also rise. Of course this is the same case with the capital market, when inflation is shaken, the value of shares will also change. So the conclusion is when the value of inflation fluctuates in one period, the stock price will also fluctuate the same as the inflation. The results show that the short-term inflation variable estimation has a positive but not significant effect. The long-term estimation results of the inflation variable have a negative but not significant effect on the JCI variable. The inflation variable has a negative and positive impact according to each period. In the second period, it was -11.82175, meaning that if inflation increased by one unit, the JCI would decrease by -11.82175 and vice versa, and in this period the lowest negative shock was given. Then in the 3rd period the shock given was positive by 4.896396, so when inflation increased the JCI also increased by 4.896396 and vice versa, and in this period the highest positive shock was given. So when the value of inflation fluctuates in one period, the stock price will also fluctuate the same as the inflation.

D. Exchange Rate Relationship and Composite Stock Price Index

imported goods and the income of importing companies will increase and then increase their stock prices. Then the JCI response to the shock given by the exchange rate variable in the 2nd to 10th period is negative. Fluctuations in the exchange rate have a direct impact on the business profitability and international market competition of a listed company on the Indonesian stock exchange. When the exchange rate rises, the value of sales on exported goods will decrease, which will reduce sales and earnings and the company's share price. Meanwhile, this will lower the price of goods at importing companies so that people are more fond of imported goods and the income of importing companies will increase and then increase their stock prices. Fluctuations in the exchange rate have a direct impact on the business profitability and international market competition of a listed company on the Indonesian stock exchange. When the exchange rate rises, the value of sales on exported goods will decrease, which will reduce sales and earnings and the company's share price. Meanwhile, this will lower the price of goods at importing companies so that people are more fond of imported goods and the income of importing companies will increase and then increase their stock prices. Fluctuations in the exchange rate have a direct impact on the business profitability and international market competition of a listed company on the Indonesian stock exchange. When the exchange rate rises, the value of sales on exported goods will decrease, which will reduce sales and earnings and the company's share price. Meanwhile, this will lower the price of goods at importing companies so that people are more fond of imported goods and the income of importing companies will increase and then increase their stock prices.

E. Policy adopted by Bank Indonesia

From the discussion of the relationship and influence between inflation, the BI Rate, the Money Supply and the rupiah exchange rate, Bank Indonesia certainly needs an important step to issue policies that have good implications for the Indonesian economy, especially the Composite Stock Price Index. Bank Indonesia needs to continue to improve consistency in monetary policy with the single target of price stability, which will greatly depend on the extent of Bank Indonesia's commitment to avoiding problems of short-term
inconsistencies in pursuing the development of low and stable inflation. Monetary policy should be implemented more consistently with the ITF proven to be able to reduce inflation from year to year, even though the achievement of inflation has not been very satisfactory.

5. CONCLUSION

This study observes the effect of inflation, the BI Rate, the amount of money in circulation, the rupiah exchange rate on the Indonesia Stock Exchange Composite Price Index for the 2014-2019 period. Based on this study using the Vector Auto Regression / Vector Error Correction Model (VAR/VECM) method and based on the hypothesis of the previous problem formulation, the following conclusions can be drawn.

a. Based on the short-term VECM test, the inflation variable has a positive but not significant effect. Then the long-term estimation results of the Inflation variable have a negative but not significant effect on the JCI variable.

b. The short-term estimation results of the BI Rate variable have a negative but not significant effect on the JCI. Then the long-term estimation results of the BI Rate variable have a negative but not significant effect on the JCI variable.

c. The variable amount of money in circulation in the short term has a significant negative effect on the JCI. The results of the long-term estimation of the variable Amount of Money in circulation have a negative and significant effect on the JCI.

d. On the short-term estimation exchange rate variable, it has a positive but not significant effect on the JCI variable. Then the long-term estimation results of the exchange rate variable have a positive and significant influence on the JCI.

e. Based on the IRF test to determine shock in each variable and the BI Rate variable, it shows that the tendency for a slight shock above the horizontal line indicates that the BI Rate variable has a permanent positive impact. The variable shows that the tendency for shock is above the horizontal line which indicates that the variable Amount of Money has a positive impact. Furthermore, the EXCHANGE variable shows that the JCI response to the shock given by the exchange rate variable in the 2nd to 10th periods is permanently negative. Inflation shows that the tendency of the shock variable given by inflation is below and above the horizontal line which shows that these variables have a negative and positive impact according to their respective periods.

BIBLIOGRAPHY

Reference Books and Journals


Nachrowi D and Hardins Usman, Popular and Practical Econometric Approaches to Economic and Financial Analysis. LPFEUI.
" Thesis, Department of Sharia Economics, Syarif Hidayatullah State Islamic University, Jakarta.


Warjiyo. Perry and Solikin. 2017. Monetary Policy in Indonesia, Center for Education and Studies on Central Banking (PPSK), Jakarta: Center for Education and Studies on Central Banking (PPSK)


Internet Reference


Website www.idx.co.id (accessed August 19, 2020)

Website accessed www.bi.go.id (accessed August 19, 2020)

Website accessed from https://databoks.katadata.co.id/ (accessed August 19, 2020)