

ABSTRACT

Stock markets can attract considerable attention for most countries, because the stock market has a strategic and important role for the resilience of a country's economy. Indonesia has a growing capital markets in which the development is very vulnerable to macroeconomic conditions in general. One of the indicators to see the development of the Indonesian stock markets is by using the Indonesian Composite Index (IHSG), which is one of the stock markets index used by the Indonesian Stock Exchange (BEI).

This research is aimed at analyzing the effect of exchange rates, interest rates and the money supply towards the value of the Indonesian Composite Index (IHSG) in Indonesian Stock Exchange (BEI). The method of analysis used in this research is Error Correction Model (ECM). This research used the monthly data from the year of 2011-2015 for every research variable.

The results of this research show that the variable of exchange rate in the short term gives significant and negative effect in IHSG with a probability of 0.0001 while in the long term it gives insignificant and positive effect on IHSG with a probability of 0.5798. While the variable of exchange rates in the short term gives insignificant and positive effect of IHSG with a probability of 0.0639 while in the long term it gives insignificant and negative effect on IHSG with a probability of 0.3051. The variable of money supply in the short term gives significant and positive effect with a probability of 0.0000 while in the long term gives insignificant and positive effect on IHSG with a probability of 0.8973.

Keywords : Exchange Rates, Interest Rates, Money Supply, Indonesian Composite Index (IHSG), Error Correction Model (ECM)