

CHAPTER V

CONCLUSION AND RECOMMENDATION

A. Conclusion

This study is started by the structural order of VAR to VECM. It started from Unit Roots Test and finished in Variance Decomposition. Based on the analysis and the test results above on the effects of exchange rate (ER); oil price (O); FTSE Malaysia (FTSE) and gold price (G) on Jakarta Islamic Index (JII), it can be concluded that:

1. Exchange rate has insignificant impact on JII in the short run. While in the long run, it has positive and significant impact for JII. Rupiah depreciation will increase the export value of a certain company. An increasing in export value will increase the company's revenue, leads to the increasing profit that in the end will increase JII. When one company has higher profit, overall stock market will also have increasing value.
2. Oil price has positive impact on JII both in short and long run. The positive response might happen because Indonesian capital market is dominated by the mining sector with 39.7 percent. Because the stock market is dominated by the foreign investors with mostly invested in mining sector, thus an increasing in oil price will increase the stock price in mining sector and impact to the stock market in Indonesia.

3. FTSE Malaysia has insignificant impact on JII in short run. However in long run it negatively effecting JII. Negative relationship may happen because Indonesia stock market is still following the regional market condition. If the crash happens in the abroad, it will trigger a crash in Indonesia capital market as well. Another important point from this relationship is because a number of national investors are lower than foreign investors. So that it causes the capital outflow to the foreign countries.
4. Gold price has negative impact on JII both in short and long run. The reason why gold negatively impacts on JII because gold can be chosen as an alternative investment when the economic instability occurs. So that in the long run, investors prefer to gold as the investment instrument.

B. Recommendation

Regarding to the study conclusions, the researcher submits recommendations for the advancement JII as follows:

1. Exchange rate is significantly impact on JII. Then, it is expected for the government as the decision maker to control the decent expectation or confidence of society regarding the fluctuation of exchange rate.
2. The changing of oil price has also an impact on JII. In order to keep with the changing of oil price, then the investors should be more aware of the latest price.

3. The effect of FTSE Malaysia as one of the regional stock market also important for JII. All related parties should be cautious on responding to the other countries economic policy changing.
4. The movement of gold price should be the consideration for the investors whenever they want to invest in the market.

