THE DETERMINANT FACTORS OF COMPOSITE STOCK PRICE INDEX

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ABSTRACT

This study aims to determine the effect of interest rates, inflation, exchange rates and the money supply on the composite stock price index on the Indonesia Stock Exchange from 2018 to 2021. This type of research is a quantitative study with a descriptive approach using multiple regression analysis methods. The results showed that the interest rate and the money supply had a significant positive effect on the composite stock price index. The exchange rate has a significant negative effect on the composite stock price index. Meanwhile, inflation has no significant effect on the composite stock price index. The suggestion in this study is that investors who will make investment transactions on the Indonesia Stock Exchange should always pay attention to information on interest rates, inflation, exchange rates and the money supply which can be combined to predict the JCI which can make investment decisions. So that every community can invest in the capital market in Indonesia. one of the ways is by controlling and regulating economic conditions such as interest rates, inflation, exchange rates and the money supply.

Keywords: Interest Rates, Inflation, Exchange Rates, Money Supply, Composite Stock Price Index.

1. INTRODUCTION

The existence of the capital market in Indonesia has become something important in this era of globalization, and is increasingly developing which proves that the capital market
is increasingly needed as part of the government’s realization, not only to raise capital but also as an alternative investment, a source of funds through the sale of shares and issuance bonds as well as macroeconomic indicators. The capital market in Indonesia is the Indonesian Stock Exchange (BEI) or Indonesia Stock Exchange (IDX) as the party that organizes and provides systems and facilities for bringing together securities buying and selling offers (Muttaqin, 2017).

The composite stock price index (IHSG) is an index (list) that measures the performance of all shares listed on the IDX. IHSG describes a series of historical information regarding joint stock price movements, up to a certain date. Share price movements are presented every day based on the closing price on the stock exchange on that day. IHSG records share price movements of all securities listed on the Indonesian Stock Exchange. IHSG is the main indicator that reflects the performance of the capital market in Indonesia when it is experiencing an increase or a decrease (Wijaya, 2015). The function of the IHSG is to see economic growth in Indonesia. IHSG has a big role in showing Indonesia's economic growth through stock movements (Arviana, 2021). The following is data on the Composite Stock Price Index (IHSG) per month in 2020 on the Indonesian Stock Exchange:


![Figure 1. Composite Stock Price Index (IHSG) 2020](image)

From the data in the table above, it shows that the IHSG per month in 2020 experienced fluctuations. JCI experienced its worst decline in March, falling to 4,539. This is due to the impact of the spread of the Corona Virus (Covid-19) which has resulted in a slowdown in the economic system, especially in the industrial, tourism, trade, transportation and investment sectors. However, various efforts made by the government and also strategies implemented by the capital market have succeeded in slowly bringing the stock index back to its feet and consistently above 5,000 since July.

Source: indexdjx 2020

![Figure 2. Dow Jones Index (DJI) 2020](image)
Figure 1 and Figure 2 show that the IHSG and Dow Jones Index experienced fluctuations. Changes in the index value above show the current capital market situation. A market where active transactions are taking place is indicated by an increase in the composite stock price index. A stable condition is indicated by a relatively flat IHSG curve, while a sluggish market is indicated by a declining IHSG curve. IHSG is a barometer of a country's economic health and can be a basis for statistical analysis of current market conditions (Arviana, 2021). If there is an increase in the IHSG, it means that there is an improvement in the country's economic performance. However, on the contrary, if there is a decline in the IHSG it means that there are indications of problems in the country's economy. JCI movements are influenced by several factors, one of which comes from macroeconomics including interest rates, inflation, exchange rates and the amount of money circulating in the country.

The currency exchange rate is related to the profits of companies that use imported raw materials. If the exchange rate weakens or experiences depreciation, company profits will decrease due to increased costs of imported raw materials. If profits decrease, the company's share price may experience a decline and result in a decline in the IHSG. To maintain exchange rate stability, the central bank at certain times intervenes in foreign exchange markets, especially when there is excessive volatility (Situmorang, 2008). Afendi (2017) states that the rupiah exchange rate has a positive effect on the IHSG, in contrast to research by Nuraini (2018) which states that the rupiah exchange rate against the dollar has a negative effect on the IHSG.

Inflation is the tendency for overall product prices to increase resulting in a decrease in the purchasing power of money (Tandelilin, 2010). Excessive inflation always has a bad impact on the economy. The impact of inflation can have negative consequences for individuals, society and economic activities as a whole. This impact can also cause goods to become scarce on the market because consumers are worried about the increase in prices of goods the next day, causing them to suffer from hoarding of goods syndrome because they are calmer about saving necessities than money. Astuti (2016) also stated that inflation has a positive effect on the IHSG. However, this contradicts the research results of Silalahi & Sihombing (2021) which states that inflation has a negative effect on the IHSG.

The increase in SBI interest rates will be followed by commercial banks raising deposit interest rates. Interest rates and stock prices have a negative relationship (Kewal, 2012). Very high interest rates can affect the present value of a company's cash flow, so that existing investment opportunities will no longer be attractive. A very high interest rate can increase the cost of capital that the company will bear, causing the return implied by the capital provider from an investment to increase. The research results state that the BI interest rate has a negative effect on the IHSG (Astuti, 2016), but this contradicts Nuraini's (2018) research which states that the SBI interest rate has a positive effect on the IHSG.

The higher the amount of money circulating in society, the higher the deposit interest rate offered will be. This will directly influence investors to deposit their capital rather than invest their capital in the form of stock investments. One of the causes of the return of the
The development of the money supply in Indonesia (M2) also shows a figure that is increasing every year. Many factors drive the increase in the amount of money circulating in Indonesia. From 2007, it shows that the amount of money circulating in Indonesia reached 1,465.48 trillion rupiah. Until 2021, the amount of money circulating in Indonesia will reach 7,867.1 trillion rupiah. According to one view of the monetary transmission mechanism, the monetary authority controls the short-term interest rate of a nominal quantity of money that evolves endogenously and passively according to demand (Kasumovich, 1996).

Research conducted by Nuraini (2018) found that the money supply (M2) has a positive and significant influence on the IHSG. Meanwhile, different results were found in Otorima & Kesuma’s (2016) research showing that the money supply has a negative effect on the growth of share price value. This tends to be because JUB experienced an increase which was dominated by high capitalized savings interest costs and expansion in several components of net claims to the government. According to Ozbay (2009), excess money supply can result in higher inflation. The money supply controlled by the government is reflected in interest rate adjustments.

**Investment**

Investment is a number of funds or other sources of funds that are made at this time, to obtain a number of profits in the future (Tandelilin, 2010). The uncertainty of future prices often makes investors reluctant to take risks in investing. Portfolio risk is a difficult choice faced by investors and sometimes makes investors afraid to invest their funds. In addition, it is very important to determine where the correct investment placement is.

**Capital Market**

The capital market is a meeting place between supply and demand for securities. A place where individuals or business entities who have excess funds invest in the form of securities offered by issuers (Listiana, 2019). The capital market has two functions, first as a means for business funding or as a means for companies to obtain funds from the investing public (Investors). Funds obtained from the capital market can be used for business development, expansion, additional working capital, and so on. The second function of the capital market is to be a means for people to invest in financial instruments such as shares, bonds, mutual funds, etc. (Ash-Shidiq, 2015). The capital market is a meeting place between supply and demand for securities. A place where individuals or business entities who have excess funds invest in the form of securities offered by issuers (Listiana, 2019). The capital market has two functions, first as a means for business funding or as a means for companies to obtain funds from the investing public (Investors). Funds obtained from the capital market can be used for business development, expansion, additional working capital, and so on. The second function of the capital market is to be a means for people to invest in financial instruments such as shares, bonds, mutual funds, etc. (Ash-Shidiq, 2015).

**Interest Rate**

Interest is a service fee for borrowing money. This service fee is compensation to the lender for the future benefits of the loan money if invested. Interest is a measure of the price of resources used by debtors that must be paid to creditors (Sunariyah, 2006). Meanwhile, according to Umima (2018) the interest rate is the price that must be paid for borrowing money for a certain period of time.
Inflation

Inflation is a tendency to continuously increase the prices of goods in general, which is caused by the amount of money in circulation being too large compared to the goods and services available (Widyawati, 2018). Inflation can increase production costs and can cause people's purchasing power to decrease. Decreasing purchasing power and high production costs will indirectly affect capital market conditions. Investors will not be interested in investing their capital and demand for shares will fall. A decrease in demand will cause share prices to decrease.

Exchange Rate

According to Samuelson & Nordhaus (2004) the exchange rate is the price of one currency unit in units of another currency, the exchange rate is determined in the foreign exchange market, namely the market where different currencies are traded. The exchange rate is the ratio of one country's currency to another country's currency. Each country has a different currency, and banks are the center of the foreign exchange market which acts as an agent or meeting place for foreign exchange buyers and sellers (Virizky, 2017).

Money Supply

Money in circulation is all types of money circulating in the economy, namely the amount of currency in circulation plus demand deposits in commercial banks. The amount of money circulating in society will reflect the country's economic condition. This economic condition will also influence the level of investment in that country. Investors must first look at the country's economic condition. This analysis of the relationship between the money supply and investment is measured by looking at how much money is circulating in society. The amount of money circulating in a country will influence a person's level of investment, including investment in the capital market (Umima, 2018).

The Effect of Interest Rates on the Composite Stock Price Index (IHSG)

If the BI 7-Day as the reference interest rate increases, then the interest rates in the banking industry will also increase. When the BI interest rate increases, it will affect deposit interest rates and also credit interest rates in the community. When shares in the banking sector increase, the JCI also increases. because shares in the banking sector are one of the sectors that play a big role in increasing the IHSG. The results of the analysis by Silalahi and Sihombing (2021) state that changes in interest rates have a positive and significant effect on the joint stock index.

H1: Interest rates have a significant positive effect on the composite stock price index.

The Effect of Inflation on the Composite Stock Price Index (IHSG)

An increase in inflation causes a general increase in prices. Such conditions can increase production costs from rising raw material prices while people's purchasing power will increasingly weaken. The weakening of people's purchasing power causes several companies to be less able to sell their products, thus affecting sales levels and causing weakening of company profitability. So it will affect the company's share price, reduce dividend distribution and people's purchasing power will also decrease. So high inflation has a negative relationship with the equity market. Afendi's (2017) research on inflation shows that inflation has a negative effect on the IHSG.
H2: Inflation has a significant negative effect on the composite stock price index.

The Effect of Exchange Rates on the Composite Stock Price Index (IHSG)

Depreciation of the domestic currency will increase the volume of exports. If international market demand is elastic enough, this will increase the Cash Flow of domestic companies, which then increases share prices. On the other hand, if the issuer buys domestic products and has debt in dollars, the share price will fall. Research by Astuti (2016) and Afendi (2017) states that the exchange rate has a positive effect on the Composite Stock Price. This happens because when the domestic exchange rate experiences depreciation, the index value on the BEI will decrease, this is caused by higher returns on the market. money and investors are more interested in investing their money in the money market. A decrease in this index will make investors hold (hold) so that there will not be many share sales, so this will result in share price volatility tending to be low.

H3: The exchange rate has a significant positive effect on the composite stock price index.

The Effect of Money Supply on the Composite Stock Price Index (IHSG)

The development of the money supply reflects economic development. Usually when the economy grows and develops, the money supply also increases, while its composition changes. As the economy becomes more advanced, the portion of currency used becomes smaller, replaced by demand deposits. Usually, when the economy improves, the composition of currency and demand deposits decreases, because the portion of authorized money becomes larger (Rahardja, 2018). Increasing the money supply will affect the demand for goods and services. The large amount of money that people have will increase people's purchasing power for goods and services. Increasing consumption of goods and services will increase company income. The profits generated by the company will also increase and the company's share price will increase, thus affecting the movement of the IHSG. Research conducted by Wulansari (2016) shows that there is a significant influence of the money supply variable on the composite stock index. The research is also in line with Wahyudi (2017) who stated that the Money Supply has a positive and significant effect on the Composite Stock Price Index (IHSG).

H4: The money supply has a significant positive effect on the composite stock price index.

2. RESEARCH METHODOLOGY

This research is quantitative research with a descriptive approach. The objects of this research are the composite stock price index (IHSG), interest rates, inflation, exchange rates and money supply in Indonesia. The data used in this research is secondary data, namely interest rate data, inflation data, exchange rate data and money supply data, the data period used is monthly, from 2018 to 2021, with 48 data observations sourced from the site official Indonesian Stock Exchange. The data analysis used in this research is descriptive statistics, multiple regression analysis. In multiple regression analysis, the classical assumptions of normality, autocorrelation, multicollinearity and heteroscedasticity are used. Then use the coefficient of determination test (R2) and to test the hypothesis using the simultaneous test (F test) and paraisal test (t test). The following is a multiple regression equation;

\[ Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e \]
Where:

\[ \begin{align*} 
Y &= \text{Composite Stock Price Index (Rp)} \\
\alpha &= \text{Constant} \\
\beta_1, \beta_2, \beta_3, \beta_4 &= \text{Variable coefficient X} \\
X_1 &= \text{Interest Rate (\%)} \\
X_2 &= \text{Inflation (\%)} \\
X_3 &= \text{Exchange rate (Rp)} \\
X_4 &= \text{Money supply (Rp)} \\
e &= \text{Error} 
\end{align*} \]

\section{RESULTS AND DISCUSSION}

\subsection{3.1. Research Results}

Descriptive statistical analysis

The results of descriptive statistical analysis which have been processed using eviews 12, can be seen in the following table:

\textbf{Table 1. Results of Descriptive Statistical Analysis}

\begin{tabular}{lccccc}
\hline 
 & Y & X1 & X2 & X3 & X4 \\
Mean & 5939.458 & 4.625000 & 0.194792 & 14332.38 & 6280810. \\
Median & 6015.000 & 4.500000 & 0.155000 & 14285.50 & 6125337. \\
Maximum & 6606.000 & 6.000000 & 0.680000 & 16367.00 & 7870453. \\
Minimum & 4539.000 & 3.500000 & -0.270000 & 13413.00 & 5351650. \\
Std. Dev. & 548.7250 & 0.931140 & 0.225058 & 479.3319 & 680449.6 \\
Skewness & -1.036324 & 0.224721 & 0.300864 & 1.570867 & 0.425923 \\
Kurtosis & 3.157206 & 1.595581 & 2.582720 & 8.303344 & 2.101540 \\
Observation & 48 & 48 & 48 & 48 & 48 \\
\hline 
\end{tabular}

\textit{Source: E-Views 12}

Based on Table 1 above, the results of detailed descriptive statistical tests are as follows:

The lowest value of the stock price index on the Indonesian stock exchange in 2018-2021 was 4539,000 in 2020. Meanwhile, the highest combined stock price value was 6606,000 in 2018. The average value of the stock price index was 5939,458 with a standard deviation value of 548.7250, smaller than the average value, so that the data deviation in the stock price index is relatively good.

The lowest interest rate value in 2018-2021 is 3.500000 in 2021. Meanwhile, the highest interest rate value is 6.000000 in 1999. The average interest rate value is 4.625000 with a standard deviation value of 0.931140, smaller than the average value, so that the data deviation in interest rate values is relatively good.

The lowest inflation value in 2018-2021 was -0.270000 in 2019. Meanwhile, the highest inflation value was 0.680000 in 1999. The average value of inflation was 0.194792 with a standard deviation value of 0.225058, greater than the average value, so Data deviations on inflation can be said to be not good.

The lowest exchange rate in 2018-2021 was -13413.00 in 2018. Meanwhile, the highest exchange rate was 16367.00 in 2020. The average exchange rate was 14332.38 with a standard deviation value of 479.3319, smaller than the average value, so that data deviations in exchange rates can be said to be relatively good.

The lowest value of the money supply in 2018-2021 was 5351650 in 2018.
Meanwhile, the highest value of the money supply was 7870453 in 2021. The average value of the money supply was 6280810 with a standard deviation value of 680449.6, smaller than the average value, so that the data deviation on the exchange rate can be said to be relatively good.

Stationarity test

The results of the ADF test on variables at level level show that of the five variables, only two variables are stationary, namely inflation and the exchange rate. This is indicated by a probability value that is greater than α (1%). Because it is not stationary, a first difference is carried out and an ADF test is carried out on the data. The test shows that all variables at the first difference level are stationary, thus the stationary data can be used to carry out analysis. Complete results from the unit root test can be seen in the table below.

<table>
<thead>
<tr>
<th>No</th>
<th>Variable</th>
<th>Level</th>
<th>1* Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Y</td>
<td>-1.846779</td>
<td>0.3540</td>
</tr>
<tr>
<td>2</td>
<td>X1</td>
<td>-0.695893</td>
<td>0.8376</td>
</tr>
<tr>
<td>3</td>
<td>X2</td>
<td>-5.171431</td>
<td>0.0001</td>
</tr>
<tr>
<td>4</td>
<td>X3</td>
<td>-4.035841</td>
<td>0.0028</td>
</tr>
<tr>
<td>5</td>
<td>X4</td>
<td>2.337786</td>
<td>0.9999</td>
</tr>
</tbody>
</table>

Multiple linear regression analysis

To measure the influence of interest rates, inflation, exchange rates and money supply on the composite stock price index, multiple linear regression analysis was used.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>14013.48</td>
<td>1915.286</td>
<td>7.316650</td>
<td>0.0000</td>
</tr>
<tr>
<td>X1</td>
<td>328.2124</td>
<td>103.9859</td>
<td>3.156317</td>
<td>0.0029</td>
</tr>
<tr>
<td>X2</td>
<td>22.80637</td>
<td>277.8254</td>
<td>0.082089</td>
<td>0.9350</td>
</tr>
<tr>
<td>X3</td>
<td>-0.844812</td>
<td>0.135303</td>
<td>-6.243870</td>
<td>0.0000</td>
</tr>
<tr>
<td>X4</td>
<td>0.000400</td>
<td>0.000143</td>
<td>2.797246</td>
<td>0.0077</td>
</tr>
</tbody>
</table>

From the results of multiple linear regression calculations with Bantan Eviews 12, the following regression results are obtained:

\[ Y = 14013.48 + 328.212 X1 + 22.806 X2 - 0.844 X3 + 0.0004 X4 + e \]

The constant value is 14013.48, which means that if the interest rate, inflation, exchange rate and money supply are constant, the IHSG value will increase by 14013.48. The regression coefficient for the BI 7-Day interest rate is 328.212. This positive coefficient value means that there is a positive influence of interest rates on the IHSG, or if interest rates rise then the IHSG rises assuming inflation, exchange rates and money supply are constant. The inflation regression coefficient is 22.806. A positive coefficient value means that there is a positive influence of the inflation variable on the IHSG, or if inflation rises then the
IHSG rises assuming that interest rates, exchange rates and money supply are constant. The exchange rate regression coefficient is -0.844. The negative coefficient value means that there is a negative influence of the exchange rate variable on the IHSG, or if the exchange rate rises then the IHSG falls with the assumption that interest rates, inflation and the money supply are constant. The regression coefficient for the money supply is 0.0004. The positive coefficient value means that there is a positive influence of the money supply variable on the IHSG, or if the money supply increases then the IHSG rises assuming constant interest rates, inflation and exchange rates.

Based on the results of data processing, this research shows that there were no problems in testing classical assumptions. Based on regression analysis calculations of multiple linear regression data, an adjusted coefficient of determination (adjusted R square) of 0.479 is obtained. This shows that the percentage variation in the composite stock price index can be explained by variations in the four variables, namely interest rate, inflation, exchange rate and amount. money circulation was 47.9%, while the remaining 52.1% was explained by other variables outside the research variables.

Based on regression analysis calculations of multiple linear regression data, the calculated F is 11.81089 with a probability of 0.00001, as for the F table value with degrees of freedom df = α (k-1), (n-k) or 0.05, (5-1), (48-5) = (4); (43), the F table value obtained is 2.589. This shows that the calculated F value is 11.81089 > F table 2.589 and the probability value is 0.00001 < 0.05, so that simultaneously there is a significant influence of interest rates, inflation, exchange rates and money supply on the composite stock price index.

The calculated value of the interest rate, exchange rate and money supply is greater than table and the probability value is smaller than 0.05, meaning that the interest rate, exchange rate and money supply have a significant effect on the composite stock price index. Meanwhile, the calculated inflation value is smaller than table and the probability value is greater than 0.05, meaning that inflation has no significant effect on the composite stock price index.

3.2. Discussion of Research Results
The Influence of Interest Rates on the Composite Stock Price Index on the Indonesian Stock Exchange 2018-2021

Interest rates have a significant positive effect on the composite stock price index in 2018-2021. The results of this research are in line with the hypothesis which states that interest rates have a positive effect on the composite stock price index. This research is supported by research by Nuraini (2018), Silalahi & Sihombing (2021), Ningrum & Mustafa (2022). This can be explained when interest rates rise and affect deposit interest rates and public credit interest rates, when shares in the banking sector increase, the IHSG also increases because shares in the banking sector are one of the sectors that play a big role in increasing the IHSG. The higher the interest rate offered, the higher the public's desire to invest in the money market.

The Effect of Inflation on the Composite Stock Price Index on the Indonesian Stock Exchange 2018-2021

Inflation has no significant effect on the composite stock price index in 2018-2021.
The results of this study are different from the hypothesis which states that inflation has a significant negative effect on the composite stock price index. This happens because rising inflation generally causes an increase in prices for raw materials. In this condition, the company can take two alternatives, either reducing production or increasing the price at which it will be sold to consumers. The next factor, inflation, can have a positive influence on long-term investments. When mild inflation occurs, investors who invest their funds in long-term investments will hold their shares to avoid losses when inflation occurs. Investors will continue to hold their shares until economic conditions stabilize. This can certainly have a positive effect on the IHSG. This is in line with research by Afendi (2017), Wahyudi (2017), Triyono (2017) which states that inflation has no effect on the composite stock price index.

**The Influence of the Exchange Rate on the Composite Stock Price Index on the Indonesian Stock Exchange 2018-2021**

The exchange rate has a significant negative effect on the composite stock price index in 2018-2021. The results of this study are not in line with the hypothesis which states that the exchange rate has a significant positive effect on the composite stock price index. This states that fluctuations in the rupiah exchange rate against foreign currencies will greatly affect investment in the country, especially in the capital market. Companies that still rely on imported raw materials from abroad will be affected if the rupiah currency experiences depreciation or weakening against the US dollar currency which will result in an increase in the price of raw materials, which will increase production costs and will reduce the level of profits obtained by the company which will encourage investors to sell the shares they own. If many investors sell their shares, it will result in a decline in the composite share price index. This is in line with research by Silalahi & Sihombing (2021), Otorima & Kesuma (2016), Nuraini (2018), Wahyudi (2017), Adesanmi & Jatmiko (2017), Triyono (2017), Ningrum & Mustafa (2022) which states that the exchange rate (IDR) has a significant negative effect on the composite stock price index.


The amount of money in circulation has a positive and significant effect on the composite stock price index in 2018-2021. The results of this research are in line with the hypothesis which states that the money supply has a significant positive effect on the composite stock price index. This is because the increase in the money supply will affect the demand for goods and services. The large amount of money that people have will increase people's purchasing power for goods and services. Increasing consumption of goods and services will increase company income. The profits generated by the company will also increase and the company's share price will increase, so this will have an effect on the JCI movement. This is in line with research conducted by Wahyudi (2017), Wulansari (2016) which states that the Money Supply has a positive and significant effect on the Composite Stock Price Index (IHSG).

**4. CONCLUSION**

The research results show that interest rates and the money supply have a significant positive effect on the composite stock price index in 2018-2021. This means that
the higher the interest rate and money supply, the higher the composite stock price index. The exchange rate has a significant negative effect on the composite stock price index in 2018-2021. This means that the higher the exchange rate, the lower the composite stock price index. Meanwhile, inflation did not have a significant effect on the composite stock price index in 2018-2021.

Suggestion in this research is that investors who will carry out investment transactions on the Indonesian Stock Exchange should always pay attention to information on interest rates, inflation, exchange rates and money supply which can be combined to predict the IHSG which can be used to make investment decisions. So that every community can invest their capital in the capital market in Indonesia. The economic level in Indonesia must be in a stable condition and can run well. One way is by controlling and regulating economic conditions such as interest rates, inflation, exchange rates and money supply.

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