

## THE INFLUENCE OF MACROECONOMIC FACTORS ON STOCK RETURN LISTED IN COMPOSITE STOCK PRICE INDEX (IHSG) FROM 2008 - 2012

by:

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### ABSTRACT

Every country has the same goal, which is to increase the level of the wealth of its citizen. In an effort to improve the prosperity of the society, any government made development in various sectors, both in the short and long term. Economic growth is one of the most effective indicators to observe the level of prosperity in a country, the better level of a country's economy, the better the level of wealth of the citizen. The objectives of this research are to analyze the influence of inflation, Gross Domestic Product (GDP), money supply, Rupiah's exchange rate, and interest rate by Indonesia central bank (macroeconomic factors) on stock return listed in Composite Stock Price Index (IHSG) simultaneously and partially. Theories supporting research are macroeconomics, investment, capital market, and stock return. The population in this research is Composite Stock Price Index (IHSG) with sample of Composite Stock Price Index from 2008 - 2012. Results and conclusions are macroeconomic factors, namely inflation, Gross Domestic Product (GDP), money supply, exchange rate, and interest rate have significant influence on stock return listed in Composite Stock Price Index (IHSG).

**Key words:** *macroeconomic, stock return*

### INTRODUCTION

#### Research Background

Every country has the same goal, which is to increase the level of the wealth of its citizen. In an effort to improve the prosperity of the society, any government made development in various sectors, both in the short and long term. Economic growth is one of the most effective indicators to observe the level of prosperity in a country, the better level of a country's economy, the better the level of wealth of the citizen. There are several aspects that can be used to measure the level of the economic growth in a country. The capital market is one of the tools for observing economic growth in a country, because the capital market is one of the media that can increase community participation in the mobilization of funds to support national financing development. Capital market is a market for a variety of long-term financial instruments that can be traded, either debt securities (bonds), equities (stocks), mutual funds, derivatives and other instruments. The capital market is a mean of financing for companies and other institutions (e.g bank), and as a mean for investing activities. The stock market can also be a representation of companies' condition, because almost all industries in a country are represented by the capital market.

An investment growth in a country will be affected by the country's economic growth. Higher level of a country's economy growth means higher level of the prosperity. Higher level of the prosperity can be measured by an increase in income levels. With higher income levels, the more the excess fund, surplus funds can be used for storage in the form of savings or invested in securities that are traded in the capital market. In investing, investors expect to earn a certain rate of return in accordance with its investment. Investors expect high returns but must not carefully observe the level of risk, because of that, investors should choose carefully what is the best and the most profitable investment. Stock is one of the most lucrative forms of investment for investors as well as having a high risk. Risk and return, theoretically, have a positive relationship on various securities. The greater the expected return, the greater the risk that would be involved.

Along with the increase in trading activities, the need to provide more complete information to the public regarding market developments, have also increased. One of the required information is the stock price index as a reflection of the movement of stock prices. Indonesia Stock Exchange (IDX) has 11 types of indexes stock price continuously disseminated through print and electronic media, as one of the guidelines for investors to invest in the stock market. It is shown from the development of the value index and value of transactions. Jakarta Composite Index (JCI) value has increased by 400 percent from 2000 to 2008. This condition is also followed by the steadily increased value of the transactions. The higher the index value which is a form of investor confidence in the Indonesian economy the more conducive it is.

However, the global economic crisis from mid 2008 has pushed the value of JCI fall by 50 % in a relatively short period of time (one year). Crisis which originating from the United States has been raze the economy in continent Europe and Asia, especially in developing countries. Indonesia as a developing country gets considerable exposure of the global financial crisis. The global economic crisis caused the decline of Indonesian exports to the United States and Europe market and this condition affects the Indonesian economy. One of the most influential impact of the global economic crisis that occurred in the United States and Europe is an increasing rupiah depreciation against the U.S. dollar. The Rupiah exchange rate against the USD started to decline since mid-2008 and continue to depreciate until it reaches its lowest level at the beginning of 2009 in the amount of Rp. 12,065 per USD (International Monetary Fund, 2009). Stock price dropped sharply and forced to be closed at the lowest level. This condition is similar with the economic crisis that happened in Indonesia a few years ago. When the economic crisis hit Indonesia in mid 1997, the performance of the stock market experienced a sharp drop the even suffered losses. This crisis affect the investors confidence to invest, and give the impact to the price of shares in the stock market. This condition also affect the macroeconomic variables experienced a sharp change, such as interest rate, inflation and exchange rate. Because of this economic crisis the public confidence in Indonesia is declined which was the beginning of the collapse of the Indonesian economy.

Capital markets play an important role in the Indonesian economy, where the value of the Composite Stock Price Index (IHSG) can be a leading economic indicator in a country. The movement of the stock price can be affected by the macroeconomic variables such as, gross domestic product, inflation, interest rate, rupiah's exchange rate and money supply. Inflation and interest rate have a negative relationship with the stock price. Inflation could increase the company's revenues and expenses. If the company's production cost is higher than the increase in prices, the company will suffered losses. This condition will affect the confidence of investors to invest and can be affecting the stock price of the company. As noted, the financial crisis that happened in Indonesia in 1998 when interest rate increased to 68.76% per year reached in 1998, as well as inflation reached 77% per year (Indonesian Financial Statistics, 2008) make the all stock price that listed in Indonesia Stock Exchange (IDX) decline sharply. Development of money supply is related to the economy development. Increasing the money supply, then, in turn increasing economic growth. The money supply has a significant positive relationship with economic growth. The development of money supply for sure will be affect the stock price. The Rupiah's exchange rate has a positive relationship between the economy growth in Indonesia. A Rupiah depreciation will affect the stock price in the stock market, depreciation will be accompanied by the decline of the stock price. The improvement of Gross Domestic Product can be seen from the increasing level of income per capita. The higher the level of the income per capita will be increase the level of the consumption. The higher the level of consumption will push the company's sales, and in turn, automatically, will increasing company's profit that also will be increasing the stock price of the company. Company's stock price can affected the value of the Composite Stock Price Index (IHSG). Because of that, it's really important to analyze how far the effect of Macroeconomic factors affecting Stock Return of Composite Stock Price Index (IHSG).

## Research Objective

The objectives of this research are:

1. To analyze the influence of inflation, Gross Domestic Product (GDP), money supply, Rupiah's exchange rate, and interest rate by Indonesia central bank (Macroeconomic Factors) on stock return listed in Composite Stock Price Index (IHSG) simultaneously.
2. To analyze the influence of inflation on stock return listed in Composite Stock Price Index (IHSG) Partially.
3. To analyze the influence of Gross Domestic Product (GDP) on stock return listed in Composite Stock Price Index (IHSG) Partially.

4. To analyze the influence of money supply on stock return listed in Composite Stock Price Index (IHSG) Partially.
5. To analyze the influence of Rupiah's exchange rate on stock return listed in Composite Stock Price Index (IHSG) Partially.
6. To analyze the influence of interest rate by Indonesia central bank influence on stock return listed in Composite Stock Price Index (IHSG) Partially.

## THEORETICAL FRAMEWORK

### Theories

#### Macroeconomics

Mankiw et al. (2008: 522) stated that Macroeconomics is the study of economy-wide phenomena, including inflation, unemployment, and economic growth. Case et al. (2009: 436) stated that inflation is an increase in the overall price level. Several price indices are often used to measure inflation, among others: cost of living index/ CPI (Consumer Price Index), wholesale trade price index (Wholesale Price Index) and the GNP deflator (Case et al., 2009: 458). Results of some previous studies (Saleem 2013; Amer, 1994) showed that the inflation rate is negatively related to stock returns. According to Case et al. (2009: 449), Gross Domestic Product (GDP) is value of all final goods and services produced within a given period by factors of production located within a country. Gross Domestic Product of a country reflects the economy growth in the country (Case et al., 2009). According to Case, et al. (2009: 529), the money supply is the total amount of money that is in the hands of the public. There is a positive relationship between growth in the money supply to stock prices, but the timing is not always consistent and seems to be shorter (Rogalski and Vnso, 1990). If there is excess of money supply, Central bank will take a policy to decreasing interest rates (Case et al., 2009). The exchange rate represents the ratio at which two currencies are traded (Case et al., 2009). According to Korsgaard (2009), exchange rate risk is the risk arising from changes in exchange rates influence the domestic currency to another country's currency. Case et al. (2009: 257) stated that the interest rate is the interest payment expressed as a percentage of the loan. Case et al. (2009) define that interest rates can be divided into two as follows: (1) nominal interest rate is the interest rate in the money. The interest rate is a value that can be read in general. This rate shows the number of dollars for every single rupiah invested, and (2) real interest rates are interest rates that have calculated by the nominal interest rate minus the inflation rate.

#### Investment

Reilly and Brown (2010: 42) stated that the investment happened when the income exceeds current consumption desires, the people prefer to save the excess fund and trying to increase the amount of the money in the future that can be used for future consumption. Liu et al. (2007) defined investment as an investment for one or more longer assets in hopes to benefit in times to come.

#### Capital Market

Merton (1987) stated that capital markets or can be called Stock Exchange in the narrow sense is an organized place that brings sellers and buyers of securities directly or through their representatives. Capital market acts as a link between investors and corporate government institutions through long-term trades of financial instruments such as bonds, stocks and more (McCice et al., 2002).

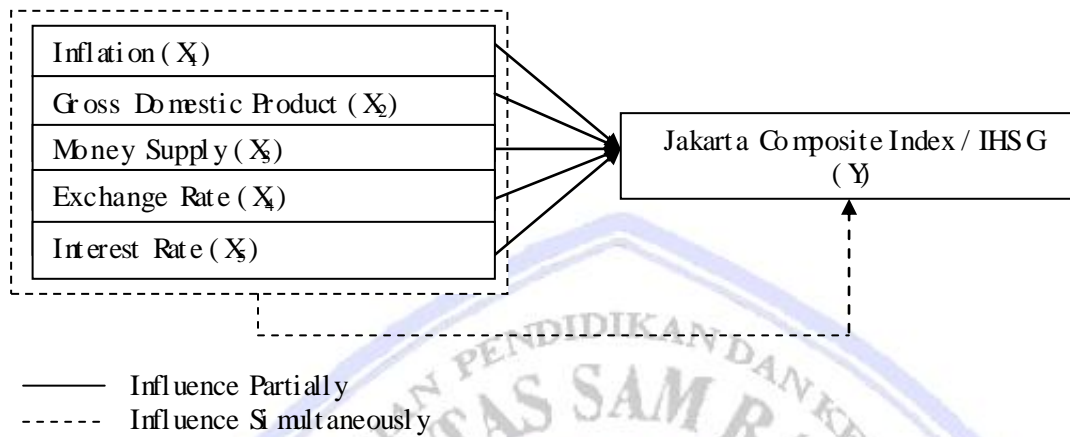
#### Stock Return

Reilly and Brown (2010: 42) defined return as the income received on an investment plus any change in the market price, usually as the percent of the beginning market price of the investment. According to Gitman, (2006: 226), return is the total gain or loss experienced on an investment over a given period of time calculated by dividing the asset's change in value plus any cash distribution during the period by its beginning of period investment value.

#### Previous Research

Nai et al. (1986) discussed economic forces and stock market, and found these sources of risk are significantly priced. Furthermore, neither the market portfolio nor aggregate consumption are priced separately. They also find that oil price risk is not separately rewarded in the stock market. Shanken (2006) discussed the

pricing of Chen, Roll, and Ross (CRR) macro variables is re-examined and found to be surprisingly sensitive to reasonable alternative procedures for generating size portfolio returns and estimating their betas. Hannery and Protapadakis (2002) Microeconomics Factors do Influence Aggregate Stock Return. In this research they are trying to examine about the 17 factors of macroeconomics and they found only 17 Microeconomics series factors, 6 are strong risk factor candidates. 2 inflation measure (CPI and PPI) affect only the level of market portfolio's return. Balance of trade, Employment and Unemployment, Housing Starts affect only return conditional volatility. Monetary Aggregate affects both return and conditional volatility.



**Figure 1. Conceptual Framework**

### Research Hypothesis

- $H_1$  : Inflation, Gross Domestic Product (GDP), money supply, Rupiah's exchange rate and interest rate by Indonesia central bank influence on stock return listed in Composite Stock Price Index (IHS G) simultaneously.
- $H_2$  : Inflation influence stock return listed in Composite Stock Price Index (IHS G) partially.
- $H_3$  : Gross Domestic Product (GDP) influence stock return listed in Composite Stock Price Index (IHS G) partially.
- $H_4$  : Money supply influence stock return listed in Composite Stock Price Index (IHS G) partially.
- $H_5$  : Rupiah's exchange rate influence stock return listed in Composite Stock Price Index (IHS G) partially.
- $H_6$  : Interest Rate by Indonesia central bank influence stock return listed in Composite Stock Price Index (IHS G) partially.

FAKULTAS EKONOMI  
RESEARCH METHOD

### Type of Research

This research uses causal type of research where it will investigate the influence of macroeconomic factors on stock return listed Composite Stock Price Index (IHS G) from 2008-2012.

### Place and Time of Research

This study will conducted in Manado during April to June 2013.

### Population and Sample

Population is generalized to the object/subject which have a certain quantity and characteristic that is required by researcher to studying and to gain conclusion (Sekaran and Bougie, 2005: 262). The population in this research is Composite Stock Price Index (IHS G).

The sample of this research is Composite Stock Price Index from 2008 - 2012. The sampling design is saturated samples that is considered as the best way of getting some basic information effective and more accurate (Sekaran and Bougie, 2005: 263).

### Data Collection Method

There are two types of data that are used to make an appropriate result, which is primary and secondary data. For this research will be used the secondary data. The secondary data is taken from books, journals, and relevant literature from library and internet. These secondary data were used in the background, literature review research method, analysis and discussions.

### Operational Definitions and Measurement of Research Variables

Operational Definitions of Research Variables

1. Inflation ( $X_1$ ) is the rate of increase in the general price of goods that occurs continuously.
2. Gross Domestic Product ( $X_2$ ) is the gross domestic product over the price of goods apply. The data used came from Bank Indonesia.
3. Money Supply ( $X_3$ ) is the sum of M1 (currency plus deposits and metals in the form of a checking account or demand deposit) which include time deposits and savings deposits and foreign currency accounts of private property as part of the domestic money supply or money controlled (quasi money).
4. Exchange Rate ( $X_4$ ) is the price of a country's currency against other currencies.
5. Interest Rate ( $X_5$ ) is the nominal interest rate set by Bank Indonesia. Interest rate is used in units of percent.
6. Jakarta Composite Index (JSI) ( $Y$ ) = Composite Stock Price Index (CSPI) is a price index which is a composite price of all shares listed on the Indonesia Stock Exchange (BEI), the measurement is performed in units of points.

### Data Analysis Method

#### Multiple Regressions Analysis Method

The method of analysis used in this study is multiple regression models to approach the return. According to Sekaran (2005), to find out the influence of dependent variable with independent variables used multiple linear regression with the formula:

Whereas:

$Y$  : Jakarta Composite Index

$X_1$  : Inflation

$X_2$  : Gross Domestic Product

$X_3$  : Money Supply

$X_4$  : Exchange Rate

$X_5$  : Interest Rate

DATA ANALYSIS AND DISCUSSION

### Result

#### Classical Assumption

The figure can be seen that there is no established pattern, in other words the graph describing the plot spread above and below the number 0 (zero) on the Y-axis and proves inflation ( $X_1$ ), Gross Domestic Product ( $X_2$ ), money supply ( $X_3$ ), exchange rate ( $X_4$ ) and interest rate ( $X_5$ ) on Jakarta Composite Index/ IHSG ( $Y$ ) are free of Heteroscedastisity. The VF value of Inflation ( $X_1$ ) is 1.190, Gross Domestic Product ( $X_2$ ) is 7.494, money supply ( $X_3$ ) is 5.283, exchange rate ( $X_4$ ) is 8.343, and interest rate ( $X_5$ ) is 1.426 which is all values are below numbers <10. It means that there is no connection between the independent variables, thus, multicollinearity assumptions are met (free of multicollinearity). Autocorrelation test using Durbin-Watson rate is 2.205 which is in the free area autocorrelation, so the regression model is free from autocorrelation. The figure can be seen that the points spread and spread around the diagonal line in the direction diagonal lines and proves that regression model normality assumption was met.

$$Y = \alpha + \beta X$$

## Multiple Linear Regression Analysis

**Table 1. Coefficient Beta**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3878.969	255.916		15.157	.000		
	X1	32.039	14.977	.135	2.239	.049	.047	1.190
	X2	.004	.001	.521	5.513	.000	.021	7.494
	X3	.003	.000	.532	7.721	.000	.040	5.283
	X4	-.618	.067	-.546	-9.295	.000	.055	8.343
	X5	244.431	82.581	.388	2.960	.010	.011	1.426

a. Dependent Variable: Y  
Source: SPSS Data Analysis, 2013

The linear regression equation is:

$$Y = 3878.969 + 32.039 X_1 + 0.004 X_2 + 0.003 X_3 - 0.618 X_4 + 244.431 X_5 + e$$

with interpretation as follows:

- Constant value of **3878.969** means that if all independent variables (Inflation ( $X_1$ ), Gross Domestic Product ( $X_2$ ), Money Supply ( $X_3$ ), Exchange Rate ( $X_4$ ) and Interest Rate ( $X_5$ )) are ignored, the stock return listed in Jakarta Composite Index / IHS G (Y) will be **3878.969** point.
- Coefficient value of **32.039** means that if Inflation ( $X_1$ ) is increased by one scale or one unit, it will improve and increase Jakarta Composite Index / IHS G (Y) at **32.039**.
- Coefficient value of **0.004** means that if Gross Domestic Product ( $X_2$ ) is increased by one scale or one unit, it will improve and increase Jakarta Composite Index / IHS G (Y) by **0.004**.
- Coefficient value of **0.003** means that if Money Supply ( $X_3$ ) is increased by one scale or one unit, it will improve and increase Jakarta Composite Index / IHS G (Y) by **0.003**.
- Coefficient value of **-0.618** means that if Exchange Rate ( $X_4$ ) is increased by one scale or one unit, it will decrease or deduct Jakarta Composite Index / IHS G (Y) by **-0.618**.
- Coefficient value of **244.431** means that if Interest Rate ( $X_5$ ) is increased by one scale or one unit, it will improve and increase Jakarta Composite Index / IHS G (Y) by **244.431**.

**Table 2 Coefficient Correlation (r) and ( $r^2$ )**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.999 <sup>a</sup>	.997	.996	49.44388	2.205

a. Predictors: (Constant), Inflation ( $X_1$ ), Gross Domestic Product ( $X_2$ ), Money Supply ( $X_3$ ), Exchange Rate ( $X_4$ ) and Interest Rate ( $X_5$ )

b. Dependent Variable: Jakarta Composite Index / IHS G (Y)

Source: SPSS Data Analysis, 2013

Based on the analysis, correlation (r) is equal to 0.999 indicating that correlation of inflation ( $X_1$ ), Gross Domestic Product ( $X_2$ ), money supply ( $X_3$ ), exchange rate ( $X_4$ ) and interest rate ( $X_5$ ) on Jakarta Composite Index / IHS G (Y) has a strong relationship. To determine the contribution of inflation ( $X_1$ ), Gross Domestic Product ( $X_2$ ), money supply ( $X_3$ ), exchange rate ( $X_4$ ) and interest rate ( $X_5$ ) on Jakarta Composite Index / IHS G (Y) can be seen from the coefficient ( $r^2$ ) that is 0.997 that may imply the contribution of inflation ( $X_1$ ), Gross Domestic Product ( $X_2$ ), money supply ( $X_3$ ), exchange rate ( $X_4$ ) and interest rate ( $X_5$ ) on Jakarta Composite Index / IHS G (Y) is 99.7% while the remaining 0.3% is affected by other variables not examined in this study.

## Hypothesis Testing

**Table 3 Simultaneously Test Analysis (F - test)**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12966663.436	5	2593332.687	1060.799	.000 <sup>a</sup>
	Residual	34225.761	14	2444.697		
	Total	13000889.198	19			

a. Predictors: (Constant), Inflation ( $X_1$ ), Gross Domestic Product ( $X_2$ ), Money Supply ( $X_3$ ), Exchange Rate ( $X_4$ ) and Interest Rate ( $X_5$ )  
 b. Dependent Variable: Jakarta Composite Index / IHS G (Y)  
 Source: SPSS Data Analysis, 2013

Simultaneous testing conducted to determine the simultaneous influence of inflation ( $X_1$ ), Gross Domestic Product ( $X_2$ ), money supply ( $X_3$ ), exchange rate ( $X_4$ ) and interest rate ( $X_5$ ) on Jakarta Composite Index / IHS G (Y). The value of  $F_{count}$  is 1060.799 at significance of 0.000. The  $sig < 0.05$  means the confidence of this prediction is above 95% and the probability of this prediction error is below 5% which is 0.000. Therefore  $H_0$  is rejected and accepting  $H_a$ . Thus, the hypothesis that inflation ( $X_1$ ), Gross Domestic Product ( $X_2$ ), money supply ( $X_3$ ), exchange rate ( $X_4$ ) and interest rate ( $X_5$ ) on Jakarta Composite Index / IHS G (Y) simultaneously is accepted.

**Table 4 Partial Test Analysis (t-test)**

Model	t	Sig.
X1	2.239	.049
X2	5.513	.000
X3	7.721	.000
X4	-9.295	.000
X5	2.960	.010

Source: SPSS Data Analysis, 2013

Partial test is used to test the effect of each independent variable, namely: inflation ( $X_1$ ), Gross Domestic Product ( $X_2$ ), money supply ( $X_3$ ), exchange rate ( $X_4$ ) and interest rate ( $X_5$ ) in partial impact on Jakarta Composite Index / IHS G (Y) by performing comparisons between the  $t_{count}$  values with  $t_{table}$  value at  $\alpha = 0.05$  or compare the probability of the real level 95% of the partial coefficient (r) so that it can be seen the influence of the independent variables individually. The t-test results:

- $t_{count}$  for Inflation ( $X_1$ ) is 2.239 which is greater than the value of  $t_{table}$  (2.086) means that Inflation ( $X_1$ ) has partially significant influence partially on Jakarta Composite Index / IHS G (Y). The sig. value of 0.049 means that prediction of Inflation ( $X_1$ ) influence on Jakarta Composite Index / IHS G (Y)'s errors is 4.9%. Thus the confidence of this prediction is above 95%. Therefore,  $H_0$  is received.
- $t_{count}$  for Gross Domestic Product ( $X_2$ ) 5.513 greater than the value of  $t_{table}$  (2.086) means that Gross Domestic Product ( $X_2$ ) has partially significant influence on Jakarta Composite Index / IHS G (Y). The sig. value of 0.000 means that prediction of Gross Domestic Product ( $X_2$ ) influence on Jakarta Composite Index / IHS G (Y)'s errors is 0.00%. Thus the confidence of this prediction is above 95%. Therefore,  $H_0$  is received.
- $t_{count}$  for Money Supply ( $X_3$ ) is 7.721 which is greater than the value of  $t_{table}$  (2.086) means that Money Supply ( $X_3$ ) has partially significant influence on Jakarta Composite Index / IHS G (Y). The sig. value of 0.000 means that prediction of Money Supply ( $X_3$ ) influence on Jakarta Composite Index / IHS G (Y)'s doing errors is 0.00%. Thus the confidence of this prediction is above 95%. Therefore,  $H_0$  is received.
- $t_{count}$  for Exchange Rate ( $X_4$ ) is -9.295 and by focusing only to number, the value is greater than the value of  $t_{table}$  (2.086) means that Exchange Rate ( $X_4$ ) has partially significant influence on Jakarta Composite Index / IHS G (Y). The sig. value of 0.00 means that prediction of Exchange Rate ( $X_4$ ) influence on Jakarta

Composite Index / I H S G ( Y ) ' s doi ng errors is 0.00 %. Thus the confidence of this prediction is above 95 % Therefore,  $H_0$  is received

- $t_{count}$  for Interest Rate (  $X_5$  ) is 2.960 which is greater than the value of  $t_{table}$  ( 2.086 ) means that Interest Rate (  $X_5$  ) has partially significant influence on Jakarta Composite Index / I H S G ( Y ). The sig. value of 0.010 means that prediction of Interest Rate (  $X_5$  ) influence on Jakarta Composite Index / I H S G ( Y ) ' s errors is 1 % Thus the confidence of this prediction is above 95 %. Therefore,  $H_0$  is received

## Discussion

The influence of Inflation, Gross Domestic Product, Money Supply, Exchange Rate and Interest Rate on Jakarta Composite Index / I H S G partially and simultaneously are proven by the interpreting data analysis given by the SPSS. The interpretation shows that all the variable have strong relationship and are supported by significance level. This happens because investment growth in a country is affected by the country's economic growth. The better the country's economy level, the better the welfare of rate its citizens. Higher level of prosperity that is generally characterized by an increase in income level. And by the existence of the increasing income, people will have excess funds that can be used for storage in the form of savings or invested in securities that are traded in the capital market. Capital markets play an important role in the Indonesian economy, where the value of the Composite Stock Price Index can be a leading economic indicator in a country. Index movement is strongly influenced by investor expectations of fundamental conditions of the country.

This research finding is a slightly difference with results of some previous studies conducted by Saleem and Amer which showed that the inflation rate is negatively related to stock returns (Saleem 2013; Amer, 1994). A positive significant influence of Inflation on Jakarta Composite Index / I H S G happens because an inflation rate is rising toward the general prices in an economy. Inflation rate (the percentage increase in the increasing price) is different from one period to another and different from one country to another. This increasing price can be measured by using a price index. Several price indices are often used to measure inflation, among others: cost of living index / CPI (Consumer Price Index), wholesale trade price index (Wholesale Price Index), the GNP deflator. Inflation is a macroeconomic variable that can be simultaneously beneficial and detrimental to a company.

Gross Domestic Product has positive significant influence on Stock Return listed in Composite Stock Price Index (I H S G). The improvement of Gross Domestic Product can be seen from the increasing level of income per capita. The higher level of the income per capita will lead to the increasing the level of the consumption. The higher the level of the consumption will push the company sales, and in turn will increase company's profit that also will increase the stock price of the company. This research supports a research by Hannery and Protopadakis which stated that real GDP growth as a cap on long-run stock returns, as other factors dilute GDP before it reaches shareholders (Hannery and Protopadakis, 2002). However, the empirical analysis of the presumed link between GDP and stock growth has certain limitations. Although this research uses a relatively long-term international equity data set, the analysis results dependent on the start and end dates of the time series, since the economy and stocks follow cyclical patterns. Then, another issue occurred within the role of investors' expectations. If expectation of future GDP growth is entirely built into today's valuations, stock price movements will tend to precede developments in the underlying economy.

A same result is also found by Rogalski and Vnsq which stated that there is a positive relationship between growth in the money supply and stock prices (Rogalski and Vnsq, 1990), but the timing is not always consistent and seems to be shorter. In general, changes in the money supply will make changes in stock prices. The significant negative influence of Exchange Rate on Jakarta Composite Index / I H S G is same with the research by Korsgaard (2009), Exchange rate risk is the risk arising from changes in exchange rates which influence the domestic currency to another country's currency (Korsgaard, 2009). Companies that use foreign currency in running operational activities and investments are at risk of the exchange rate. When Rupiah's exchange rate is depreciated, it will affect the operational cost and the operational cost will increase and affect the profit of the company. Changes not exchange rate is not anticipated by the company will affect the value of the company. This research has a different result with the previous one by Case et al, which stated that the interest rate can be defined as the rate of return on assets at risk is close to zero. Investors can use the interest rate as a benchmark for comparison if they want to invest. Generally, the interest rate has a negative relationship



with stock exchanges (Case et al., 2009). When the government announced a higher interest rate, investors will sell their shares and replace the fixed-income instruments that provide a higher interest rate. On the other hand, in Indonesia, some of the investors are gambling with the situation, resulting in a positive influence of Interest Rate on Jakarta Composite Index / IHSG

## CONCLUSION AND RECOMMENDATION

### Conclusion

1. Inflation, Gross Domestic Product (GDP), money supply, Rupiah's exchange rate, and interest rate by Indonesia central bank (Microeconomic Factors) have significant influence simultaneously on stock return listed in Composite Stock Price Index (IHSG).
2. Inflation has significant influence on stock return listed in Composite Stock Price Index (IHSG) partially.
3. Gross Domestic Product (GDP) has significant influence on stock return listed in Composite Stock Price Index (IHSG) partially.
4. Money supply has significant influence on stock return listed in Composite Stock Price Index (IHSG) partially.
5. Rupiah's exchange rate has significant influence on stock return listed in Composite Stock Price Index (IHSG) partially.
6. Interest rate by Indonesia central bank (Microeconomic Factors) has significant influence on stock return listed in Composite Stock Price Index (IHSG) partially.

### Recommendation

1. In managerial role, International Business Administration (IBA) Program needs to see inflation, Gross Domestic Product (GDP), money supply, Rupiah's exchange rate, and interest rate by Indonesia central bank (macroeconomic factors) that will ultimately influence on stock return listed in Composite Stock Price Index (IHSG).
2. The next researcher may need to add another variable or add an intervening variables to make this study to be more accurate with the level of different approaches - different so that it can assist in the process of further research.

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