

INDONESIAN CAPITAL MARKET REVIEW

The Volatility of Indonesia Shari'ah Capital Market Stock Price Toward Macro Economics Variable

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Shari'ah stock market is also affected by many highly interrelated economic, social, political and other factor, same as the conventional stock market, the interaction between macroeconomic variables and Shari'ah stock market creating volatility in the stock price as a response towards several shocks. The sensitivity of Shari'ah stock market towards shocks happened related with the future expectation of micro and macro factor in one country which can be predict or unpredictable.

There are six macroeconomic variables that used in this research; inflation, exchange rate, interest rate, dow jones index, crude oil palm price, and FED rate. Using vector error correction model (VECM), the result shows that domestic macroeconomic variables that significantly affect Indonesia Shari'ah compliance for long term, while for international macroeconomic variables the selected variable such as FED rate and Dow Jones Index are not significantly affected Indonesia Shari'ah compliance both in short term and long term.

Keywords: *Indonesia Shari'ah compliance, Macro Economic Indicators, Impulse Response Function, Stock Price Volatility*

Introduction

Stock market is an economic and industrial institution that has major contribution for fund transferring and *Shari'ah* capital market as the part of the whole capital market system also contributes particularly in providing alternative investment and financing channels through the movement and mobilization of economic resources. As a comparison with the conventional stock market, *Shari'ah* capital market is believed to be more stronger than the conventional stock market towards crisis, fundamental

changes and exogenous financial shocks. The shocks are formed by the future expectation of micro and macro factor in one country either rationally or adaptively on economic fundamentals which can be predict or unpredictable. The relation between selected macroeconomic variables and *Shari'ah* stock price will be dicussed further below:

The relationship between inflation and stock price can exist either positively or negatively by looking at the inflation rate. The increasing inflation rate resulting into strict economy policy, thus making the free risk nominal rate

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