ABSTRACT

The weakening of Indonesia's economy caused by the weakening of the very weak investment and export growth rates. Due to higher imports compared to the exports, it's leading to the deficit of the trade balance. And the strengthening of the currencies of some developed countries as well as the withdrawal of foreign investors from the market performed stock exchange of Indonesia. The movement of the exchange rate USD-IDR and IHSG that fluctuate and are likely to continue to weaken in the period 03 January, 2011 to August 31, 2016. It shows the movement of the growth of Indonesia's economy. From the volatility level of the exchange rate USD-IDR and IHSG may also prove whether there is a contagious effect (spillover) between the change of growth rate and IHSG which is the product of the foreign exchange market and stock market.

This research was conducted to find out the presence of volatility spillover from the currency market and capital market as well as knowing the direction of movement of the volatility spillover from them, where each market is represented by its products, namely exchange rate USD-IDR and IHSG.

This research data uses sources obtained from daily reference rate JISDOR USD-IDR to exchange rate, and the IHSG data changes that come from the Indonesia Stock Exchange website. To answer the question of the research problem, the author uses data time series and some of the research methods are used to analyse it. Such methods include Unit Root Test (Unit Root Test) with the Augmented Dickey-Fuller (ADF), EGARCH, and Granger Causality. And data processing test is done by the writer with the help of software.

Based on the testing that has been done, there is evidence that data from Exchange rate USD-IDR and the data on the level of the IHSG are not stationary and stationary level at the level of the first difference by changing data into daily return data from each data. Data rate and IHSG are known to experience a heteroskedasticity problem so that analysis can be done using EGARCH method. The results of the analysis using EGARCH shows that volatility spillover occurred between these two exchange rates USD-IDR and IHSG. Then do the test with the Granger Causality method that showed result where the volatility spillover happens is two way causality relationship, where changes in the foreign exchange market give influence to the capital markets, and changes in the capital markets to influence the foreign exchange market.

This study provides information that changes that occur both on the foreign exchange market and stock market will both influence each other. This research is also useful for investors to see the rate of change of the exchange rate or level of IHSG to see risk and return from the investments made. In order to take action that does not have a high level of risk that can lead to losses for investors.

Keywords: Volatility Spillover; EGARCH; Exchange Rate USD-IDR; JCI.