ABSTRACT

The globalization led many parties or corporations doing trade relations not only within the scope of the country but also interacting with parties from abroad. International trade raises a variety of risks, and the greatest risk that companies face is the risk of currency fluctuations. The fluctuations in the currency of the foreign exchange have a direct impact on sales turnover, product pricing, and the rate of return earned by importers and exporters. This risk creates uncertainty about how much profit will be earned in the future. To minimize the loss effect of the fluctuating currency rate, the company can apply hedging policy by using derivative instruments such as option contracts, futures, forward contracts and swap contracts.

This study aims to test the underinvestment hypothesis that predicts a positive relationship between growth opportunities with hedging. The population used in this study is all non-financial SOEs listed on the Indonesia Stock Exchange period 2013-2017. From the criteria, there are 16 company and 80 samples. The result of the test shows that the market to book value equity (MBVE) variable has positive and insignificant influence while the variable of expenditure to book value assets (CAPBVA) has negative and insignificant effect.

Keywords: Underinvestment problem, hedging, market to book value equity, capital expenditure to book value assets.