ABSTRACT

The development of globalization which has an impact on the global economy has made the economy weakening. One of the countries affected by the economic downturn is Japan, which is ranked as the third best economy in the world. The weakening also has an impact on coutries that have strong bilateral relations, including Indonesia, which has caused Indonesia's exports to Japan to decline. As well as on the other hand the Japanese government implemented a negative interest rate policy caused by the economic recession, where it had an impact on the stock markets of both countries (NIKKEI and IHSG) which can be seen in the period 4 January 2013 - 29 December 2017 NIKKEI and IHSG.

This study aims to determine the volatility of spillover in the stock markets of each country and to find out how the relationship of volatility spillover on the Indonesian stock market (IHSG) and the Japanese stock market (NIKKEI 225). To analyze this research the author uses time series data which will be analyzed by unit root test method (Unit Root Test) with aumented Dickey-Fuller test, EGARCH and Granger Causality Test.

The result showed that there was no volatility spillover on the Indonesian stock market and the Japanese stock market based on the EGARCH test. In the Granger Causality test shows that in spillover Indonesia and Japan do not have a casual relationship where the volatility of the two countries does not affect each other, in other words if there is a shock on the Japanese stock market,it will not affect the Indonesian stock market and vice versa.

Keywords: Indonesian stock market; IHSG; Japanese stock market;NIKKEI; Spillover volatility,EGARCH.