Emperical study of the interaction between monetary policy and the Jakarta stock exchange : heteroscedasticity identification approach

Yudha Permana, author

Abstrak

<i>This paper provides evidence on the reactions of an emerging financial market to monetary policy announcements. We employ an instrumental variable estimation approach based on the "identification through heteroscedasticity" technique to estimate the impact of a change in the official interest rate and its surprise component on asset prices in Indonesia. The new methodology controls for possible feedback relationships between financial variables and official interest rate changes. Data study objects that I used in this thesis are samples of the stock price indexes of JSX, foreign exchanges and SBI rates. Data samples are daily rctums from JSX database and Bloomberg, respectively. Study period covers from August 03, 1998 to January 02, 2004, a total one thousand and fifteen (1415) observations based on trading dates. In our analysis, official interest rates have a smaller significant impact on stock market movements, driving them in the same direction as the change in stock prices. The results suggest that daily interest rates have a smaller significant impact on stock market movements within the period after the Bank Indonesia Act |999 to year 2004, driving them in the same direction as the change in stock prices. On the other hand before Bank Indonesia Act I999, I observe an influence of official interest MIC changes on short-term stock indices.</i>