

CONTRIBUTION OF BLUE CHIPS STOCK TO INDONESIAN ECONOMIC GROWTH

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Abstract

The objective of this research was to analyze the contribution of capital market to economic growth of Indonesia, which is represented by the Gross Domestic Product (GDP). The analysis model used in this research was a model of Vector Error Correction Model (VECM) with quarterly data from 2008:01 to 2015:04. The result indicated that the capital market significantly affected the economic growth of Indonesia. Moreover, the result of causality test showed a one-way relationship between Blue Chip Stocks and GDP. It becomes tremendous recommendation that those instruments tend to trigger the growth especially in politics and security issues in the nation.

Keywords: *Blue Chip Stocks (LQ45), Corporate Bond, Treasury Bond, Gross Domestic Product (GDP), Gross Domestic Product.*

PRELIMINARY

Economics is the main focus for every country, changes in the economic sector will affect other sectors of society. One of the indicators that affect a country's economy is investment. The success of investors in conducting investment activities is influenced by the interest rate. In line with research Makaryanawati & Ulum (2009), which states that the interest rate proved to have a positive effect on investment risk. The direction of influence is consistent with the theory that if interest rates are high, it will result in lower investment. Lusiana. (2012), said that investment for a country is a necessity or a necessity, investment is one of the motor of economic wheel that the country can encourage its economic development in line with the demands of its society development. Increased economic growth can not be separated from the development of investments that occur in the capital market.

The capital market is where buyers and fund sellers meet. According Ikhsan (2010), capital possible because the capital market can be used as a tool to collect long-term funds from investors who can then be distributed for the development of a country. The presence of an increasingly growing capital market proves that it is increasingly needed as part of the government's realization that can be used to cover the budget deficit. The capital market can also meet the funding needs for the company to support production activities and encourage economic growth. With the capital market, investors will be easier to place funds so that economic activities in various sectors can be improved (Anoraga & Pakarti, 2006). According Sunariyah (2003) there are several capital market instruments such as stocks and bonds.

In addition to stocks and bonds, the stock index in the stock market is LQ45. LQ45 is the average stock price of the 45 stocks that have the highest liquidity or commonly called the Blue Chips stock. Blue Chips is the common stock of a company with a high reputation, as a leader in similar industry, has stable and consistent income in paying dividends (Darmadji and Fakhrudin, 2001).

The presence of a growing capital market, proving that it is increasingly needed as part of the government's realization that can be used to cover the budget deficit. The capital market can also meet the funding needs for the company to support production activities and encourage economic growth.

The development of the capital market is aimed at stimulating investment that can increase the accumulation of capital in the country so that it can improve the national economy. Capital obtained from the capital market, of course, can increase capital in the country (Nugraha, 2007). Increased capital in the country can certainly be exploited to expand so that it can increase national output, which will further boost economic growth.

LITERATURE REVIEW

Capital Market

In general, according to Darmadji and Fakhrudin (2006), capital markets are places for sale of various long-term financial instruments, such as debt, equity (stock), derivative instruments, and other instruments. Capital Market is a means of funding for companies and other institutions (eg government), and as a means for investment activities. Thus, the capital market facilitates various facilities and infrastructure of buying and selling activities and other related activities.

Investation

Investment is defined as the use of money for the purpose of earning income. Investment is an investment within the company, with the aim that the wealth of a corporation or company increases (Anoraga and Pakarti (2006) .Investment is the investment for one or more assets owned and usually long-term in the hope of gaining profit in the future (Sunariyah, 2003).

Stock Exchange

According to Putra (2002), the stock exchange is an organized system with an official mechanism to bring together the seller and buyer directly or through its representatives. The main exchanges in Indonesia where the stock and bond transactions are conducted are the Jakarta Stock Exchange (BEJ) and Surabaya Stock Exchange BES).

Stock

Shares are certificates indicating proof of ownership of a company's status, and shareholders have claim rights on the company's earnings and assets (Rusdin, 2006).

Blue Chips

Blue Chips is the common stock of a company with a high reputation, as a leader in similar industry, has stable and consistent income in paying dividends (Darmadji and Fakhrudin, 2001).

Composite Stock Price Index

The Composite Stock Price Index (CSPI) will show the general stock movement listed on the stock exchange (Anoraga & Pakarti, 2006).

Bond

According to Fahmi (2012), a bond is a securities that are sold to the public, in which various provisions are explained which explain things such as nominal value, interest rate, term, name of the issuer and some other provisions described in the legislation By the relevant institutions. There are several types of bonds such as Treasury Bond (TB) is a bond issued by the government, such as the finance department or central bank of a country and Corporate Bond (CB) is a bond issued by the company.

Economic Growth

According to Jhingan (2000), economic growth is a long-term increase in Gross Domestic Product (GDP) in the ability of a country to provide more economic goods to its population.

RESEARCH METHODS

Types and Data Sources

The type of data used in this study is secondary data in the form of quarterly data in time series from the period 2008: 01 - 2015: 04 which is sourced from the website of Bank Indonesia and the Financial Services Authority.

Data Analysis Model

In this study the model of analysis used is the Vector Error Corection Model (VECM). The VECM model is used in a non-structural VAR when the time series data is not stationary at the level level but the data is cointegrated, so VECM is also called the extracted VAR. The VECM model reduces long-term behavior relationships among existing variables in order to converge into cointegration relations but still allow for dynamic changes in the short term. This term of cointgration is called error correction because if there is a deviation to long-term equilibrium it will be gradually corrected by a partial short-term partial adjustment (Widarjono, 2007). The model used in this research is VECM. These variables are Gross Domestic Product, Composite Stock Price Index, Government Bond and Corporate Bond. These variables are expressed in the form of:

$$PDB_{nt} = \beta_{01} + \beta_{11}GDP_{1t-i} + \beta_{12}LQ24_{2t-i} + e_{nt} \dots \dots \dots (1)$$

Where :

GDP_{nt} = Economic Growth

LQ24_{nt} = Blue Chips Stock Index

β_{01} = Intercept

β_{i1}, β_{i2} = Parameter in the form of a polynomial matrix

Ent = error term

DISCUSSION RESULT

Stationarity Test

Unit root test is performed to determine whether a variable is stationary or not stationary. Unit root tests are performed on all variables used in Vector Autoregression (VAR) analysis. Unit root test conducted in this study using Phillips-Perron test (PP).

Table 1. Root Test Results of Phillips-Perron Units at First Difference

Variabel	Test critical values:			Phillips-Perron test statistic	
	1% level	5% level	10% level	Adj. t-Stat	Prob.*
LQ45	-3.670170	-2.963972	-2.621007	-4.407819	0.0016
PDB	-3.670170	-2.963972	-2.621007	-10.18483	0.0000

Source: Uni root test results, processed using Eviews 9 (2016).

Based on Table 1. Phillips-Perron test results at Level at Level all the variables studied were not stationary. Therefore, Phillips-Perron stationary test was conducted at the first difference level, the result shows that the absolute value of Phillips-Perron statistic Blue Chips and Gross Domestic Product variables is greater than its critical Mackinnon value, thus all those variables are stationary at first difference.

Causality Test Result

Granger Causality test is conducted to determine the causality or causal relationship between variables in the study of Blue Chips and Gross Domestic Product. The use of lag amounts is recommended when testing the causality for a longer time, in order to conform to the suspicion of causality. If there is a causality relationship then H_a hypothesis accepted with probability value must be smaller than 0.05 and if there is no causality H_o hypothesis is rejected.

Table 2. Causality Test Results

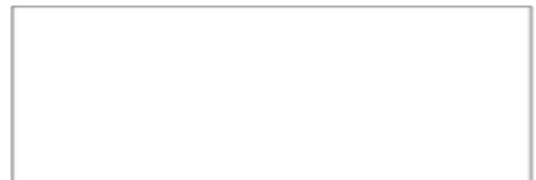
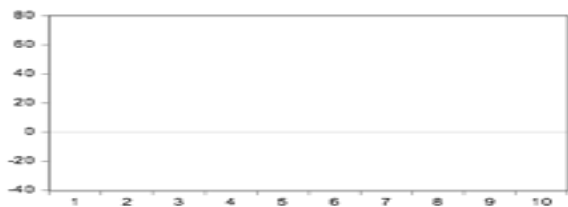
Null Hypothesis:	Obs	F-Statistic	Prob.
DIF_PDB does not Granger Cause DIF_BC	29	0.71078	0.5013
DIF_BC does not Granger Cause DIF_PDB		4.19495	0.0274

Source: Granger Causality test results, processed using Eviews 9 (2016)

Based on Table 2. The results of causality test indicate that there is a one-way relationship between Blue Chips and GDP Share variables, ie Blue Chips Share affect GDP. This relationship can be seen from the probability value of 0.0274 which means the hypothesis H_a accepted and H_o hypothesis rejected.

Impluse Response Results

An Impulse Response Function (IRF) analysis is performed to see the response of each variable in the long run if there is a certain shock (shock) of one standard deviation on each equation. IRF tracks the impact of a one-time shock on one innovation of present and future values on endogenous variables. If the innovation is not temporarily connected then the interpretation of the IRF will remain. There are 6 graphs of Impulse Response test results of capital market variables namely JCI, Corporate Bond and Government Bonds that respond to Gross Domestic Product.



Based on the above picture, when Blue Chips Shares are experiencing shocks then GDP responds negatively for two periods and in the third period responded positively, but in the 4th to 10th period responded negatively. This proves that if the blue chip stock price falls then the level of productivity of the company also decreased which will cause the economy also decreased.

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

Based on the results of research that has been in the analysis it can be taken some conclusions are:

1. Blue Chips and Gross Domestic Product Variables have long-term relationship.
2. The results of causality test indicate that the variable LQ45 has a direct relationship with GDP. The high level of liquidity from companies issuing blue chip stocks will help increase the stock of funds for companies that will be used to increase productivity that will ultimately boost economic growth

Suggestion

Based on the conclusions that have been mentioned above, the suggestions that can be given by researchers are as follows:

1. The domestic security and politics sector also needs to be improved, as this is very influential on the level of investor confidence that goes to Indonesia in conducting investment activity in the capital market.
2. For researchers who wish to continue this research, it is better to analyze the influence of capital market to other macroeconomic variables such as exchange rate, inflation, foreign debt, balance of payments, interest rate, and can add sukuk variable to capital market instrument.

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