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FACTORS INFLUENCING THE STOCK PRICES IN INDONESIA

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FACTORS INFLUENCING THE STOCK PRICES IN INDONESIA

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ABSTRACT

Understanding the dynamics of stock prices is critical for investors, decision-makers, and market players because the stock market is so important to the Indonesian economy. A thorough investigation into the variables affecting Indonesian stock prices is still required, as well as research into the consequences for investors and the stability of the market as a whole. This study aims to examine the impact of world oil prices, profitability, economic growth, inflation, and exchange rates on stock price in Indonesia from the year 2019 until 2021. This study uses a quantitative approach and uses panel data analysis to investigate data obtained from financial statements and stock market information. The results show that there is a significant relationship between world oil prices and profitability of mining companies in Indonesia. However, economic growth, inflation, exchange rate have no significant impact on mining companies in Indonesia. Higher oil prices have a positive impact on the profitability of mining companies, which indicates their sensitivity to fluctuations in world oil prices. These results have important implications for investors, policy makers, and mining companies in understanding the factors that affect the performance of mining companies in Indonesia.

Keywords: Stock Price, World Oil Price, Profitability, Economic Growth, and Inflation

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Chapter 1

Introduction

1.1 Background of Study

With the introduction of the Free Trade Area (AFTA), corporate competitiveness is increasing in the present age of globalization. The Association of Southeast Asian Nations has established the ASEAN Free trading Area, a trading bloc that promotes domestic production and commerce in all ASEAN nations while easing economic integration with allies on a national and international level. The covid epidemic that occurred from 2019 to 2021 had an impact on the growth of the domestic and global economy. Companies must further develop their management principles in order to compete with other businesses in this fiercely competitive market. Along with the issue of high productivity, the firm must naturally also pay attention to the level of share prices in order to accomplish its goals. High productivity is a challenge the company must overcome in order to fulfill customer demand. The company's objectives include turning a profit and doing business efficiently.

A commitment to a number of cash or other resources made now with the hope of gaining a number of advantages later on is known as an investment (Tandelilin, 2010: 2). From this definition, investment relates to the ownership of resources over a long period of time which is intended to generate future profits. One of the main factors that influence investment decisions is stock returns. Stock return is the result obtained from a stock investment. Stock return is the result of a stock investment. Stock returns

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are negative and positive, if the stock return is positive it means that the stock investment makes a profit. If it is negative then the stock investment generates a loss.

By looking at the importance of world oil commodities, which affect the world economy. Fluctuations in world oil prices can affect company revenues. World oil is a commodity or natural resource that is used as a source of energy such as gasoline, diesel fuel, lubricating oil, fuel oil and others. Generally, the world oil used as a reference or standard is West Texas Intermediate (WTI). With the latest news about the war between Russia and Ukraine, the world oil price is threatened to rise. Oil is crucial to the economic growth of a nation. As a result, the variables that affect oil prices continue to worry policymakers, investors, and experts. By providing the first empirical analysis of the impact of the continuing Russia-Ukraine war on US oil prices, this research advances our understanding of the factors that affect oil prices. The US oil price increase as a result of the Russia-Ukraine conflict was particularly noticeable in the middle and upper quantiles. (Isaac Appiah, 2022).

A certain device or equipment is necessary to enhance company operations. Profitability is the most crucial tool used. Profitability is a crucial area of outcome where performance and results practically determine survival. Being aware of a company's profitability allows us to gauge its capacity to produce profits, making it one of the key ratios. The research found that profitability significantly and favorably affects stock returns (Ulupui, 2007).

The success of specific firms and the status of the economy are only two examples of the many variables that affect how much stocks cost and how much they depreciate each year. As stated in the author statement that they were eager to conduct research on the current state of the Indonesian stock exchange's Bursa Efek



Indonesia's, the title is “FACTORS INFLUENCING THE STOCK PRICES IN INDONESIA”

1.2 Problem Statement

Due to its substantial influence on the Indonesian economy, the volatile nature of stock prices in Indonesia presents difficulties for investors, decision-makers, and market participants. To find and comprehend the numerous factors affecting Indonesian stock prices, a thorough analysis is required. Research is also required to investigate the effects of these price variations on investors and the market's overall stability. Addressing these problems can give stakeholders insightful knowledge of the Indonesian stock market, empowering them to take calculated risks and make wise decisions.

External factors like oil prices, exchange rates, and inflation are what drive ups and downs in stock values. It is possible to identify a corporation that can maintain market price liquidity by looking at stock prices. According to earlier studies, There is a link between rising stock markets and world oil prices. by taking into account key currency exchange rate indices, interest rates, the availability of energy, and global economic activity as variables. It is found that exchange rate movements and oil price changes are interrelated. (Omar Masood, 2019).

There is some information regarding the topic that will be discussed in the context of the price of the shares of the sector-specific Listed firms on the Indonesia Stock Exchange. To make it simpler for investors to find information on the subject they are researching as well as to inform the Indonesian population about the effects of oil prices on mining sector companies, the author wants to conduct research on the

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impact of external factors on the share prices of mining sector companies listed on the Indonesia Stock Exchange.

1.3 Research Objective

here are 5 goals in this essay:

1. RO1: To examine the impact of world oil price on stock price.
2. RO2: To examine the impact of profitability on stock price.
3. RO3: To examine the impact of economic growth on stock price.
4. RO4: To examine the impact of inflation on stock price.
5. RO5: To examine the impact of exchange rate on stock price.

1.4 Research Question

The goal of this study is to understand how other factors, such as exchange rate, and affect the price of company stock. To achieve this goal, there are a few questions that are ostensibly present in this research paper, as listed below:

1. RQ1: Does the world oil price gives impact on stock price?
2. RQ2: Does profitability gives impact on the stock price?
3. RQ3: Does economic growth gives impact stock prices?
4. RQ4: Does inflation gives impact to stock price?
5. RQ5: Does the exchange rate gives impact to stock price?

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1.5 Scopes

This study's goal is to look at the factors that affect the share prices of companies in the mining sector that are listed on the Indonesia Stock Exchange. The information that will be acquired will be assembled using the historical data that is accessible on the Indonesia Stock Exchange website. The information was collected from an Indonesian stock exchange-traded mining company. The data utilized spans the period from January 2019 to December 2021 using historical data. indicators of the overall state of the economy, such as inflation and the currency rate. The stock prices of these businesses are influenced by their financial performance, notably their profitability and Return on Assets. Stock prices may rise when a company does well because it attracts investors; on the other side, stock prices can fall when a company performs poorly. Global variables that may affect the Indonesian stock market, such as the growth of the world economy as well as the cost of crude oil, may have an impact on how investors feel about emerging economies.

1.6 Significant of Study

1. This research can be expanded upon in subsequent studies by using it as a reference
2. For students, researchers hoping that the study's findings can be used for learning tools, or references to help students in learning. This research can be used to evaluate and increase skills in the financial field.
3. For potential investors, it can be used as a reference in investing in the company.

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4. For universities, researchers hope to provide information and input in learning on campus to raise educational standards, especially related academics, and increase the knowledge of teachers in the college
5. For the general public, this research can be used to measure the performance of companies based on financial statement information.

1.7 Organization of Study

Chapter 1 - Introduction

Chapter 2 - Literatur Review

Chapter 3 – Methodology

Chapter 4 – Data Analysis

Chapter 5 - Conclusion



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