



**Economic Faculty
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Thesis

**The Impact of Profitability Ratio, Interest Rate and Exchange Rate
On Stock Price in Indonesia**

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ABSTRACT

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This study analysed the impact of profitability ratio, interest rate and exchange rate to stock price in Indonesia. The samples of the study are firms in Indonesia Stock Exchange, Property and Real Estate Sector listed continually from 2003-2007. Research finding failed to establish any significant impact between three independent variables and stock price. This indicates that past information does not have a significant information content to be used as a predictor of stock price. The different results of research with other study might be caused by selection industry sector and period used.

Keyword: Stock Price, R O E, Interest Rate, Exchange Rate

CHAPTER I

INTRODUCTION

1.1 Background

Capital market is one of the market types where all investor meet to sell or buy securities. Though the daily activity capital market is sales or buy long term securities, the objective of capital market is to get the source of financing for corporate and also government for activity that have productive characteristics. Capital market is the market in which long term financial instruments, such as bonds, equities, mutual funds and derivative instruments are traded. Capital Market serves as an alternative for a company's capital resources and public investment. It also facilitates the infrastructures needed for the selling and buying process and other related activities (www.idx.co.id, 2008).

There are many matters which must be considered by investors before analyzing securities (Husnan, 1994). This analysis conducting in form of technical and fundamental analysis .The technical analysis is used by exploiting change of data price in the past for prediction of price of securities in the future meanwhile fundamental analysis conducted to identify prospective of the companies in the future.

According to Tandelilin (2001), the change of the price stock might be caused by some factors come from within company and also from outside of the company. For example economic conditions, interest rate, inflation rate, and exchange rate, government policy in economic area, capital structure and asset structure (Tandelilin, 2001). Investor can conduct stock valuation with

fundamental analysis through "top down" to assess prospective of the company. First the investor need to analyze economic factors which influence performance company, then continued with industrial analysis, and in the last doing analysis to the company that issues the related securities to assess whether that security give the benefit or loss to the company.

There are some companies ever have degradation of profit drastically from year to year. There are some company that have decreasing performance cause of the degradation effect of going down of profit company but there is also some company is increasing performance because the increasing of profit company. This change can because of several things for example high lower operating expenses, fluctuation of the sales volume, and higher of interest rate

Analyzing financial performance of companies useful for knowing how far company can reach the target of its finance. Analyzing tools which is using by company is not quit of role of accounting function at the site used to provide company's finance information through company financial statement, there are balance sheet and income statement, the information of company performance knowing with company financial statement analysis (Riyanto:1994). Some way can be used in company performance analysis, one of the techniques which often using is analysis of financial ratio because this technique more simple compared to other technical analysis in assessing company's performances of past and its prospect to future period. There is so many financial ratio which is used to assess company performance, but more commonly used consist of four main category (a) profitability ratio,(b) Activity ratio (c) ratio of leverage and (d) liquidity ratio.

CHAPTER V

CONCLUSION

5.1 Conclusion

The purpose of this study is to examine ROE, interest rate, and exchange rate to stock price of real estate and properties companies. This study used stock price as dependent variable and ROE, interest rate, and foreign exchange rate are as independent variable. The sample of this research is property and real estate companies listed in Indonesian Stock Exchange from 2003 until 2007.

This study found that ROE has insignificant influence to stock price of real estate and properties companies and also for interest rate and exchange rate has insignificant influence to stock price real estate and properties companies. For statistical F- test, this research shows that ROE, interest rate, and foreign exchange rate, when act as a group is not influence the stock price.

In the equation model, Return on Equity shows positive direction to stock price. It means when ROE increase, stock price will increase. Interest rate expresses different direction with ROE result. Interest rate shows negative direction. It means when interest rate increase, stock price will decrease. For variable exchange rate, the equation model expresses no causal relationship.

The value of R Square for regression model is 0.008 or 0.8% means that the capability of ROE, foreign exchange rate, and interest rate to describe the stock price of the Real Estate and Property Industry Companies is only 0.8%. It proposed that there are still more variables that could described the stock price highly if added another independent variables.

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