

# CHAPTER I

## INTRODUCTION

### A. Background

A sequence of large affairs colored the first year of this third Millennium. Three largest global stock exchange markets stopped their trading activities on the same day. They were New York Stock Exchange (NYSE), National Association of Securities Dealers Automated Quotations (NASDAQ), and London Stock Exchange. The shock was due to the terrorist attack against the symbol of world financial supremacy, World Trade Center building at 11th of September 2001. At that time, the Jakarta Stock Price Index crashed down from 445 to 414 or decreased 7,3 percents.

The Dow Jones Industrial Average (DJIA) was closed at 9,605.51 at 10th November 2001, exactly the day before the attack. The market reopened again on September 17, 2001, and hit 8,755.46. The market would not recover for a month. The September 11 incident is one of the most extreme examples of what terrorist activity can do to markets and individual stocks. The major attack was a few blocks from the New York Stock Exchange and the floor had to be shut down because of the damage to southern Manhattan.

Muhammad Tahir Suleman (2012) said that Financial markets have reacted in a highly meaningful pattern to September 11, 2001, the hijacked airliner attacks in the United States, the suicide blasts at nightclubs in Bali in 2002 and the Madrid and London train bombings of 2004 and 2005 and a series of blast and

continuous series of attacks and blasts in Pakistan. The inside story provides a base of learning to the investors and risk managers about the drastic nature and fallacy of such events.

When crisis, most of indices were also vulnerable except majority of the islamic indices. Using Sharpe Ratio, Treynor Index and Jensen's Alpha measurement, Catherine Soke Fun Ho, Nurul Afiqah Abd Rahman, Noor Hafizha Muhamad Yusuf and Zaminor Zamzamin (2013) measure the performances of conventional and islamic indices from their market beta values, which were previously determined using Capital Asset Pricing Model (CAPM). They studied if Islamic indices outperformed their conventional counterparts during crisis periods.

**Table 1.1**  
**Performances of Conventional and Islamic Indices During the Dotcom Crisis 1998-2000**

	Conventional			Islamic		
	Sharpe	Treynor	Jensen	Sharpe	Treynor	Jensen
Dow Jones Index	-0.835	-5.824	-0.710	<b>-0.740</b>	<b>-5.517</b>	<b>-0.538</b>
Kuala Lumpur Index	-0.522	-8.842	-1.620	<b>-0.441</b>	<b>-7.008</b>	<b>-0.897</b>
Swiss Index	-0.939	-7.245	-1.479	<b>-0.787</b>	<b>-5.891</b>	<b>-0.872</b>

Table 1.1 shows that those bold ratios, which are the Islamic indices, are higher than their conventional counterparts. Means that Islamic indices outperformed their conventional indices during the Dotcom Crisis in 1998-2000.

The higher the Sharpe Ratio is consistent with a higher probability that the index return exceed the risk-free return. The higher the Treynor Index indicate superior performance. And A positive alpha of Jensen Index means that the index achieves excess return relative to the market, negative alpha means underperformance.

**Table 1.2**  
**Performances of Conventional and Islamic Indices During the Global Crisis 2007-2008**

	Conventional			Islamic		
	Sharpe	Treynor	Jensen	Sharpe	Treynor	Jensen
Dow Jones Index	-0.843	-9.217	-2.322	<b>-0.732</b>	<b>-8.232</b>	<b>-1.731</b>
MSCI Index	-0.783	-8.219	-2.314	<b>-0.616</b>	<b>-6.887</b>	<b>-1.362</b>
S&P Index	-0.815	<b>-8.896</b>	<b>-2.310</b>	<b>-0.664</b>	-18.265	-2.721
FTSE Index	-1.251	-15.311	-3.582	<b>-0.044</b>	<b>-12.661</b>	<b>0.493</b>
RBS Index	-1.073	-18.460	-5.881	<b>-0.958</b>	<b>-15.976</b>	<b>-5.557</b>
Kuala Lumpur Index	-0.882	-8.992	-1.669	<b>-0.597</b>	<b>-7.225</b>	<b>-1.061</b>
Jakarta Index	-1.225	-11.990	1.005	<b>-1.113</b>	<b>-10.828</b>	<b>1.233</b>
Hang Seng Index	<b>-0.304</b>	<b>-4.032</b>	<b>-0.251</b>	-0.524	-6.955	-1.989
Swiss Index	-1.204	-18.306	-3.711	<b>-0.768</b>	<b>-7.868</b>	<b>-1.638</b>
BSE Index	-0.863	<b>-9.601</b>	<b>-0.366</b>	<b>1.044</b>	-14.160	-2.372
SGW Index	<b>-0.687</b>	<b>-8.596</b>	<b>1.846</b>	-0.703	-9.051	0.946

The same research proved evidence of same performances of indices during another crisis. Table 1.2 shows that during the global crisis of 2007-2008,

most of Islamic indices outperformed their conventional counterparts. From both tables, Islamic indices mostly known to have higher endurance than the conventional indices when crisis. And one might know the performances of both type of indices for the overall period in the following table.

**Table 1.3**  
**Performances of Conventional and Islamic Indices for the Overall Period**  
**1998-2013**

	Conventional			Islamic		
	Sharpe	Treynor	Jensen	Sharpe	Treynor	Jensen
Dow Jones Index	-0.482	-3.486	-0.791	<b>-0.452</b>	<b>-3.412</b>	<b>-0.751</b>
MSCI Index	-0.454	-3.223	-0.639	<b>-0.126</b>	<b>-1.205</b>	<b>-0.145</b>
Russel Index	-0.404	-2.136	0.180	<b>0.063</b>	<b>0.318</b>	<b>0.261</b>
S&P Index	-0.518	-3.745	-0.917	<b>-0.145</b>	<b>-1.958</b>	<b>-0.327</b>
FTSE Index	-0.875	<b>-6.562</b>	<b>-1.632</b>	<b>-0.187</b>	-16.447	-2.33
RBS Index	<b>-0.306</b>	-3.781	<b>-0.306</b>	-0.310	<b>-3.130</b>	-1.233
Kuala Lumpur Index	-0.491	-5.146	-1.059	<b>-0.431</b>	<b>-4.703</b>	<b>-0.841</b>
Jakarta Index	-1.196	-9.249	0.958	<b>-1.121</b>	<b>-8.970</b>	<b>1.238</b>
Hang Seng Index	-0.113	-1.067	<b>-0.011</b>	<b>-0.074</b>	<b>-0.888</b>	-0.123
Swiss Index	-0.637	-5.400	-1.425	<b>-0.485</b>	<b>-3.763</b>	<b>-0.828</b>
BSE Index	-0.644	<b>-5.418</b>	<b>0.658</b>	<b>-0.630</b>	-6.351	-0.094
SGW Index	<b>-0.023</b>	<b>-0.159</b>	<b>2.451</b>	-0.072	-0.566	0.692

From the table 1.3, it is proven that the majority of return results for the overall period indicate that Dow Jones, MSCI, Russell, S&P, Kuala Lumpur, Jakarta, Hang Seng and Swiss Islamic indices outperformed their conventional ones. In brief, empirical evidence has indicated that conventional indices may not continue to achieve more superior return performances than other indices. But how is the performance of Jakarta Islamic Index particularly?

Domestically, The Jakarta Stock Price Index fell by 1.399 at October 2008 from its peak by 2.838 when January 2008. Capitalization rate of Jakarta Stock Exchange decreased by about IDR 1.000 Trillion. But then, such condition is better than the decrease amid monetary shock at 1998. Danareksa Sekuritas analyzes that there are some items distinguishing between 2008 crisis and 1998 crisis. They are, year 2008 bank reserve that was higher by the amount of 200 percents compared to year 1998, a stable interest rate and inflation on 2008, foreign debt ratio toward the GDP whose trend tended to decline, and a more stable political situation.

In the mean time, Jakarta Islamic Index fell down to its lowest point at 28th October 2008 by 172 once it has touched its highest point at 28th February 2008 by 517 after which it finally closed by 216. This was the lowest point that Jakarta Islamic Index has ever made up to now. Afterwards, Jakarta Islamic Index had fallen by 682 on April 2013 before its next decline by 579 on November 2013. Such trend went hand in hand with the decline of Indonesian Rupiah's exchange rate on 2013 which was the impact from Tapering Off policy done by The Fed.

Recalling the fact above, it is true that Jakarta Islamic Index decreased and it was when global crisis taken place and it is caused by the subprime mortgage in the U.S economy. Yet, still the decrease did not last in extreme way. Table 1.2 shows that Jakarta Islamic Index outperformed the Jakarta Composite Index. And in overall period shown above, Jakarta Islamic Index proved its good performance.

But how is the performance of Jakarta Islamic Index after the global crisis period of 2008 up to 2009 and what behind its good performance were? This paper tries to reveal what behind the good performance of Jakarta Islamic Index were in the period after global crisis from 2010 to 2014.

## **B. Problem Limitation**

In connection with limited resources available in this research and given the fact that there is a lot of factors affecting the movement of Jakarta Islamic Index, thus researcher would like to restrict this study only on :

1. Variables that is assumed to have influence towards the size of the movement of Jakarta Islamic Index namely Dow Jones Industrial Average (DJIA), London Interbank Offered Rate (LIBOR), Consumer Price Index (CPI), and Indonesian Rupiah Exchange Rate.
2. The data used in this research constitutes monthly data namely from first month in 2010 up to last month in 2014 which consists of:
  - a. Dow Jones Industrial Average

- b. London Interbank Offered Rate
- c. Consumer Price Index
- d. Indonesian Rupiah Exchange Rate

### **C. Problem Formulation**

Based upon the above background description, thus author would like to formulate problem to be as follows:

1. How is the influence of Dow Jones Industrial Average towards Jakarta Islamic Index?
2. How is the influence of London Interbank Offered Rate towards Jakarta Islamic Index?
3. How is the influence of Consumer Indonesia Price Index towards Jakarta Islamic Index?
4. How is the influence of Indonesian Rupiah Exchange Rate towards Jakarta Islamic Index?
5. How is the influence of Dow Jones Industrial Average, London Interbank Offered Rate, Indonesia Consumer Price Index, and Indonesian Rupiah Exchange Rate simultaneously towards Jakarta Islamic Index?

#### **D. Objectives of Research**

This research is aimed at identifying world and domestic macroeconomic factors that likely affect Jakarta Islamic Index since 2010 up to 2014. While the objectives of this research are :

1. To identify how is the influence of Dow Jones Industrial Average towards Jakarta Islamic Index.
2. To identify how is the influence of London Interbank Offered Rate towards Jakarta Islamic Index.
3. To identify how is the influence of Indonesia Consumer Price Index towards Jakarta Islamic Index.
4. To identify how is the influence of Indonesian Rupiah Exchange Rate towards Jakarta Islamic Index.
5. To identify how is the influence of Dow Jones Industrial Average, London Interbank Offered Rate, Indonesia Consumer Price Index and Indonesian Rupiah Exchange Rate towards Jakarta Islamic Index.

#### **E. Benefits of Research**

Between the benefits that can be obtained are mentioned below :

1. For the author.

To enrich the scientific treasury and library source as well concerning the current development of Jakarta Islamic Index.



2. For the society.

This research can be used as a reference towards better comprehension by the society especially for those who involved in trading activity to be aware of current condition regarding the movement of Jakarta Islamic Index

3. For the government.

This research can be used as a material to consider by the government or decision makers in formulating strategic policy in order to improve the performance of Jakarta Islamic Index

4. For the reader.

This research can be used as an information and could be referred for further study regarding Jakarta Islamic Index