

**A COMPARATIVE ANALYSIS OF THE EFFECTS OF GDP,
INFLATION, REER, AND RIR ON INDONESIA'S IHSG AND
MALAYSIA'S KLCI USING THE ARDL-ECM APPROACH**

UNDERGRADUATE THESIS



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**DEVELOPMENT ECONOMICS STUDY PROGRAM
FACULTY OF ECONOMICS AND BUSINESS
UNIVERSITAS PEMBANGUNAN NASIONAL "VETERAN"
JAWA TIMUR**

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the Bachelor Degree in Economics**



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APPROVAL PAGE

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FOREWORD

The author offers thanks and praise to Allah SWT for the guidance and grace, which enabled the author to complete this thesis titled “**A Comparative Analysis of the Effects of GDP, Inflation, REER, and RIR on Indonesia’s IHSG and Malaysia’s KLCI Using the ARDL-ECM Approach.**” The primary purpose of this thesis is to fulfill the requirements for earning a Bachelor of Economics degree in the Development Economics Program at the Universitas Pembangunan Nasional “Veteran” Jawa Timur..

The author acknowledges that the preparation of this thesis was not without various obstacles and challenges. However, thanks to the guidance, support, motivation, and prayers from many people, this thesis was successfully completed to the best of the author’s ability.

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The author realizes that this research is far from perfect. Therefore, the author hopes to receive constructive criticism and suggestions from all parties. May this research be of benefit to us all.

Surabaya, June 3, 2026

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ABSTRACT

This study aims to analyze and compare the effects of Gross Domestic Product, *the Real Effective Exchange Rate*, inflation, and real interest rates on Indonesia's Composite Stock Price Index and Malaysia's *Kuala Lumpur Composite Index* in both the long and short term. Indonesia and Malaysia were selected as subjects for comparison because they exhibit significant differences in structural characteristics, including variations in the degree of economic openness, historical macroeconomic volatility, and the maturity of their capital markets; thus, a comparative analysis of the two provides representative insights into the heterogeneity of transmission mechanisms within the ASEAN region. The theoretical framework used includes *Fundamental Value Theory*, *the Interest Rate Channel of Monetary Policy Transmission*, *the Fisher Effect*, and *the Arbitrage Pricing Theory*. The study employs a quantitative approach using the *Autoregressive Distributed Lag (ADL)* model and *Bounds Testing for Cointegration* on annual time-series data from 1994 to 2024, comprising 31 observations per country. The results confirm the existence of long-run cointegration between macroeconomic variables and stock indices in both countries. Gross Domestic Product (GDP) has a positive and significant effect on the IHSG with a long-run elasticity of 1.44 and on the KLCI with an elasticity of 0.87. Inflation has a positive and significant effect on the IHSG, whereas its effect on the KLCI is negative but not statistically significant, indicating differences in the strength of monetary policy transmission mechanisms between the two countries. *The Real Effective Exchange Rate* has a significant effect only on the KLCI, consistent with differences in the level of economic openness between the two countries. The IHSG's faster adjustment speed compared to the KLCI reflects differences in the macroeconomic structural characteristics of the two countries, with Indonesia operating in a higher-volatility environment, resulting in a more aggressive corrective response. These findings have implications for investors in designing regional portfolio diversification strategies, as well as for policymakers in formulating more effective macroeconomic policies.

Keywords: IHSG, KLCI, ARDL, Macroeconomics, ASEAN Capital Markets

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