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

By:

Muhammad Zulfan Syarif
22011010080/FEB/EP

DEVELOPMENT ECONOMICS STUDY PROGRAM

FACULTY OF ECONOMICS AND BUSINESS

UNIVERSITAS PEMBANGUNAN NASIONAL "VETERAN"

JAWA TIMUR

2026

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

Submitted as Partial Fulfillment of the Requirements to obtain the Bachelor Degree in Economics

By:

Muhammad Zulfan Syarif
22011010080/FEB/EP

DEVELOPMENT ECONOMICS STUDY PROGRAM

FACULTY OF ECONOMICS AND BUSINESS

UNIVERSITAS PEMBANGUNAN NASIONAL "VETERAN"

JAWA TIMUR

2026

APPROVAL PAGE

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

Compiled by:

Muhammad Zulfan Syarif
22011010080/FEB/EP

Defended Before and Approved by the Board of Examiners
Department of Development Economics, Faculty of Economics and Business
Universitas Pembangunan Nasional "Veteran" Jawa Timur
Date: June 03, 2026

Approved by: Supervisor	Board of Examiners: Chairperson
Putra Perdana,S.E.,M.Sc	**Kiky Asmara, S.E.,M.M**
NIP. 199006132024061001	**NIPPPK. 1981062520252120266**

Examiner

Fauzatul Laily Nisa, S.E., M.E.
NPT. 21219950925352

Aknowledged by,
Dean of the Faculty of Economics and Business
Universitas Pembangunan Nasional "Veteran" Jawa Timur

Dr. Dra. Ec. Tri Kartika Pertiwi, M.Si, CRP.,
NIP. 196304201991032001

STATEMENT OF PLAGIARISME-FREE

I, the undersigned:

Name	: Muhammad Zulfan Syarif
NPM	: 22011010080
Study Program	: Development Economics
Faculty	: Economics and Business
Thesis Title	: A Comparative Analysis of the Effects of GDP, Inflation, REER, Indonesia's IHSG and Malaysia's KLCI Using the ARDL-ECM Approach

I hereby declare that:

1. My undergraduate thesis is original and entirely my own work; it is not the work of another person submitted under my name, nor is it a copy or plagiarism of another person's work. This thesis has never been submitted for an academic degree, either at the Universitas Pembangunan Nasional "Veteran" Jawa Timur or at any other institution of higher education.

2. This undergraduate thesis does not contain any works or opinions written or published by others, unless they are clearly cited in writing, with the author's name mentioned and included in the bibliography.

3. I hereby declare that this statement is true and accurate; should any discrepancies or inaccuracies be found in this statement at a later date, I am willing to accept academic sanctions, including the revocation of the degree I have earned based on this thesis, as well as other sanctions in accordance with the norms and regulations in effect at the Universitas Pembangunan Nasional "Veteran" Jawa Timur.

Surabaya, 1 Juli 2026

METERAI TEMPEL

Muhammad Zulfan Syarif
NPM. 22011010080

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.

Therefore, with deep respect for the completion of this thesis, the author would like to express his deepest gratitude to:

1. Mr. Putra Perdana, S.E., M.Sc., as the thesis advisor, who provided guidance and direction in conducting this research, enabling the author to complete it successfully.
2. Prof. Dr. Ir. Akhmad Fauzi, M.MT., IPU., as the Rector of the UPN "Veteran" Jawa Timur.
3. Dr. Dra. Ec. Tri Kartika P, M.Si., CRP, Dean of the Faculty of Economics and Business at the UPN "Veteran" Jawa Timur..
4. Mr. Riko Setya Wijaya, S.E., M.M., as the Head of the Development Economics Study Program, Faculty of Economics and Business at the UPN "Veteran" Jawa Timur..

5. The entire faculty and staff of the Development Economics Study Program at the UPN "Veteran" Jawa Timur., who have shared their knowledge and provided support to the researcher.
6. To my beloved parents, Father and Mother, who always pray for me, shower me with love, and constantly give me extra encouragement. The author hopes this thesis can help shape the future so that it may be of benefit to the archipelago, the nation, the state, and my family.
7. To my classmates of the class of 2022, especially the members of Bela Negara, who gathered almost every day at Warkop Perak thank you for your invaluable contributions to the completion of this research.
8. To Manchester United, the club I have idolized since childhood, thank you for keeping me motivated to complete this research, especially when Manchester United won a match, it gave me even more enthusiasm to finish this project.

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

Muhammad Zulfan Syarif

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

Muhammad Zulfan Syarif, Putra Perdana

Department of Development Economics, Faculty of Economics and Business

UPN "Veteran" East Java

Email: 22011010080@student.upnjatim.ac.id

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

TABLE OF CONTENTS

Page

LIST OF TABLES

Page

LIST OF FIGURES

Page

LIST OF APPENDICES

Page