

**ANALYSIS OF THE EFFECT OF THE FED FUNDS RATE, VIXCLS, EXCHANGE RATE,
AND INDONESIAN GOVERNMENT BONDS ON THE MSCI INDONESIA INDEX**

UNDERGRADUATE THESIS

**Submitted in Partial Fulfillment of the Requirements for
the Degree of Bachelor of Economics**



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

2026

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APPROVAL PAGE

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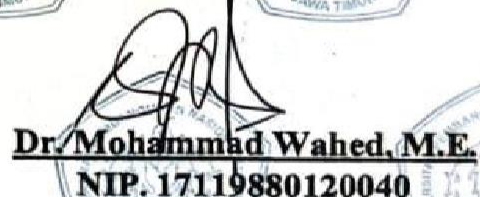
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FOREWORD

Praise be to God Almighty who has given Guidance and His Blessings. I express my gratitude so that I can complete this thesis with a good result which is entitled **"Analysis of the Effect of the Fed Funds Rate, VIXCLS, Exchange Rate, and Indonesian Government Bonds on the MSCI Indonesia Index"**

The purpose of this thesis research is to meet the requirements to achieve a Bachelor of Economics degree in the Development Economics Study Program, Faculty of Economics and Business, National Development University "Veteran" East Java. This research is the result of investigation in relation to the completion of this final work. The researcher conveys appreciation and gratitude to:

1. Mr Putra Perdana, SE, M.Sc. as thesis supervisor who sincerely takes the time to provide assistance, guidance and direction to the researcher in completing the Final Thesis Assignment.
2. Prof. Dr. Ir. Akhmad Fauzi, MMT., as Rector of the National Development University "Veteran" East Java
3. Dr. Dra. Ec. Tri Kartika Pertiwi, M.Si., as Dean of the Faculty of Economics and Business, National Development University "Veteran" East Java
4. Mr Riko Setya Wijaya, SE, MM, as Head of the Development Economics Study Program, Faculty of Economics and Business, Universitas Pembangunan Nasional "Veteran" Jawa Timur
5. All lecturers in the Development Economics Study Program, Faculty of Economics and Business, Universitas Pembangunan Nasional "Veteran" Jawa Timur

who have provided knowledge and support to the researcher

6. Especially to my parents, who have financed my studies and supported my learning process.
7. To my beloved friends who have helped and shared knowledge with one another, both during and outside the academic process.

Surabaya, July 2026



Writer

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ABSTRACT

The MSCI Indonesia Index serves as the primary benchmark for international institutional investors in Indonesia, exposing it simultaneously to global monetary conditions, external risk sentiment, currency dynamics, and domestic fixed-income developments. This study examines the long-run and short-run effects of the Federal Funds Rate, the CBOE Volatility Index, the USD/IDR exchange rate, and the Indonesian government bond yield on the MSCI Indonesia Index over January 2015 to December 2024. Data are analyzed using the Vector Error Correction Model, supplemented by Impulse Response Function and Forecast Error Variance Decomposition over a 24-month horizon. The Johansen cointegration test confirms multiple stable long-run equilibrium relationships among all variables, indicating that the MSCI Indonesia Index is structurally co-determined by all four macroeconomic forces and cannot deviate from them permanently. A statistically significant error correction mechanism is identified, indicating that the index adjusts rapidly back toward its long-run equilibrium following any deviation, consistent with the high information-processing capacity of its predominantly institutional investor base. In the short run, global risk sentiment exerts a persistent multi-period suppressive effect on the index, while exchange rate depreciation transmits negatively through the currency risk channel. The Federal Funds Rate produces a counterintuitive positive short-run response attributable to the index's commodity and banking sector composition, with its full contractionary effect materializing only after a meaningful delay. Forecast error variance decomposition reveals that global risk sentiment dominates the long-run structural equilibrium, while the domestic government bond yield emerges as the largest exogenous contributor to medium-to-long-run forecast uncertainty, operating through a portfolio substitution channel that deepens progressively over time.

Keywords: Federal Funds Rate, MSCI Indonesia, USD/IDR Exchange Rate, VECM, VIXCLS