

The Impact Of Changes In Macroeconomic Factors On The Ability Of Companies In The Creation Of Shareholders' Wealth In South East Asia

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Abstract - *This research is related to the impact of macroeconomic factors to the movement of the stock price index in Southeast Asian countries. The macro economic factors which became the independent variable (X) in this study, consisted of inflation, exchange rate and gross domestic product (GDP), while the dependent variable(Y) is the stock price index. Data was analyzed using the panel data regression analysis, with Eviews 8 as the data processing tool. The results showed a positive and significant impact of the exchange rate on the stock price index, while the GDP had a significant and negative effect on stock price index, and the inflation is not significant impact on stock indexes. From these results it can be concluded that the exchange rate and GDP significantly affect a company's ability to increase shareholder value. Thus the government in Southeast Asian countries needs to formulate appropriate policies regarding exchange rates and GDP, so that every industry can run well and support the pace of economic growth.*

Keywords: *Inflation, Exchange Rate, GDP and the stock price index*

1. INTRODUCTION

Macro-economic factors such as inflation, exchange rate, and GDP will normally affect a company's performance. Changes in inflation will have an impact on people's purchasing power; the level of consumption would be decreased due to rising prices. Low levels of consumption will cause a decline in companies' sales, which will certainly affect the companies' profits generated. The profit decline will certainly have a negative impact on the company's stock market price. Just as inflation, the rise and fall of the exchange rate also impacts on a company's performance. Weakening of the currency could lead companies in that country to bear high operating expenses, especially companies that use imported raw materials, but on the other hand for companies which are more in exporting their products abroad, a weakening of the currency against the dollar, could positively impact their earnings.

However, if you look at the phenomena that occur in several countries in Southeast Asia , the movement of macroeconomic indicators do not followed by the movement of the stock that should be. The following are the data of macroeconomic indicators and stock prices movement.

Table 1. The movement of Macroeconomic indicator and Stock Price index'

Year	State	Stock Price	Exchange Rate	Inflation	GDP
2011	Indonesia	3	0,36	3,8	6,5
2012	Indonesia	13,3	-8,72	4,3	6,2
2013	Indonesia	0,25			5,78
2014	Indonesia	18,7			5,12
2013	Malaysia	10,54	-8,58	3,2	6,8
2014	Malaysia	0,71	3,69	3,1	6,4
2013	Filipina	62,3	-9,03		
2014	Filipina	19,9	1,35		

Source: ASEAN Development Bank (2015)

Table 1 explain the condition of economic factor and stock price in 3 ASEAN countries that become a phenomenon problem in this research . In Indonesia in 2011 and 2012 GDP experienced a decline, inflation increased and the exchange rate declined, but stock prices actually showed positive growth, as well as in 2013 and 2014 GDP declined but stock prices actually experienced growth. In Malaysia, too, in 2013 and 2014 GDP declined, inflation fell, the exchange rate increased the value of shocks experienced a slowdown in growth. In the Philippines in 2013 and 2014 the exchange rate grew positively but was followed by a slowdown in growth from stock prices. If we look at the movement of economic factors and the stock price index, it looks abnormal, and become a question whether economic factors really significantly affect the movement of stocks in the capital markets of ASEAN countries.

Several studies related to the impact of macroeconomic factors on stock prices also show different results. Arif (2014), Umoru and Asekome (2013) stated that there is a close relationship between macroeconomic factors and prices. Gay (2008) found no influence of macroeconomic factors on stock prices

Based on the issue and the phenomenon above, the authors conducted a study regarding the impact of macroeconomic factors to the stock market index in Southeast Asian countries, the results of this study are expected to help various stakeholders in taking appropriate policies, to help drive the rate of economic growth in the ASEAN region especially in moving investment in the capital market.

2. FRAMEWORK AND EMPIRICAL STUDY

The following is a theoretical framework that describes the flow of research thinking based on theory, which consists of grand theory, there are Stockholder and stakeholder's theory, both theories explains that the company's goal is to maximize shareholder wealth, where the stock price becomes the indicator. Stock theory and capital market hypothesis theory become middle range theory, where both theories state that stocks in the capital market movements are influenced by fundamental and non-fundamental factors, one of the fundamental factors is the macroeconomic factor.

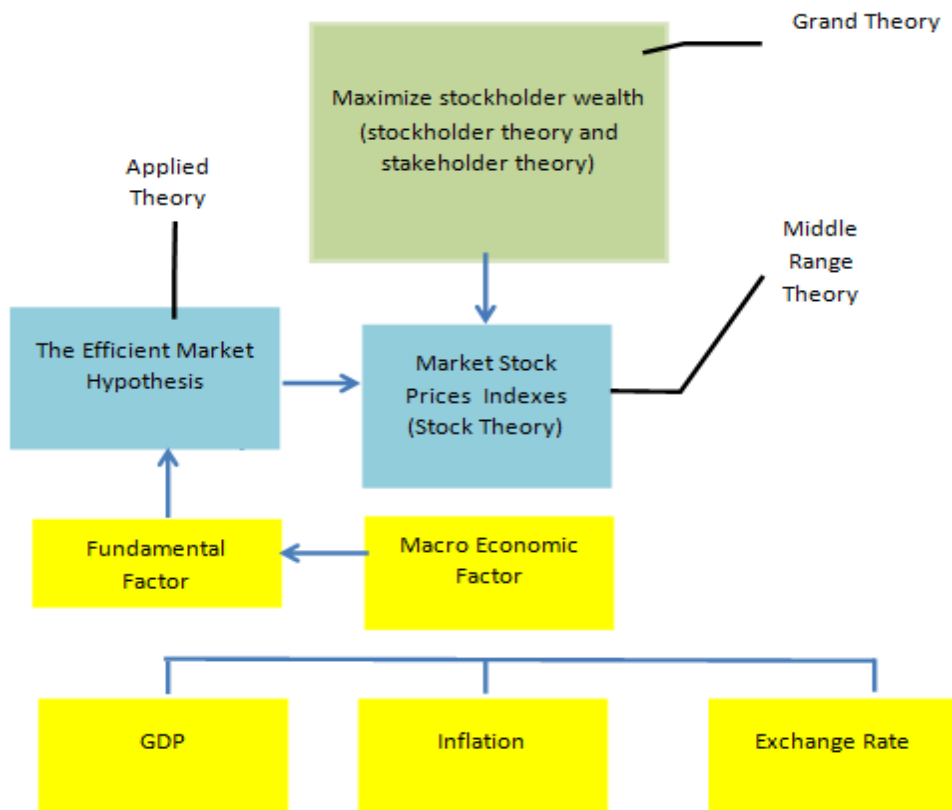


Figure 1. The theoretical framework

2.1 Stockholder Theory and Stakeholder Theory

The grand theories in this research are the stockholder theory and the stakeholder theory, there is a difference between both theories, but there are similarities that both theories suggest that shareholders are part of the interested parties and must be prosperous.

Stockholder Theory: Given that businesses are moral individuals or at least can be treated as if they were— what moral obligations, if any, do businesses have? The answer to that question is: “None!” Martin Friedman believes that businesses do not have any moral obligations or social responsibilities at all, other than to maximize their own profit. This view is called “Shareholder Theory” (Friedman, 1970)

Stakeholder Theory: This states that businesses do have social responsibilities; for instance, businesses have a responsibility to not detract from the well-being of others, and perhaps they are even obligated to charitably promote the well-being of others (Freeman, 2004). Based on both theories above, it can be concluded that a company's obligation is to maximize shareholder value, where shareholder value can be measured by stock price movements.

2.2 Inflation

2.2.1 The Fisher Effect

This can be regarded as the earliest western theory; Erwin Fisher explained the relationship between interest rate and the inflation rate with concepts as: the real interest rate, the nominal interest rate and the rate of inflation. In a certain economic system, the real interest rate is usually a fixed value, representing the actual purchasing power. If the inflation rate is expected to rise, the nominal interest rate rises. Of course, the stocks are also affected by inflation rate and interest rates. The same is to actual incomes; stock returns and the inflation rate have a positive correlation.

2.2.2 *The Volatility Hypothesis*

The volatility hypothesis by Kevin and Perry, gave another explanation to inflation in 1998. It explained that, if the inflation rate is very high, the profit of investors in the stock market will be greatly reduced. Because the risk is greater, the increase of uncertainty often indicates the will to pay a higher price; this then leads to lower stock returns. In addition, high inflation makes the realization ability of the stock also greatly discounted, which makes the expectations of investors reduce, it folded into the present value, the stock yields are reduced. This position comprehends various factors as a result, stock returns and inflation is a negative correlation.

2.2.3 *Variability Hypothesis*

This hypothesis is characterized by a condition that low inflation other than high inflation has more stability. In fact, it in part overlaps with the "volatility hypothesis". Relatively high inflation, then it indicates higher uncertainty. This will directly reduce the expected returns on stocks, resulting to more risks for the management of the enterprise, the cash flow of enterprise, the line of discount and so on will have varying degrees of damage. This brings it to a conclusion that inflation directly affects the returns.

2.3 *Exchange Rate*

Exchange rate risk is the risk arising from the effect of changes in exchange rates of the domestic currency with the currency of another country. Companies that use foreign currency in carrying out operational activities and investments face risks associated with the exchange rate. Changes in exchange rates that are not anticipated by the company will have an effect on the value the company. (Pasaribu, et al., 2009).

In essence, exchange rate movements should be influenced by economic fundamentals. In the capital market, for example, economic fundamentals will affect the acquisition of dividends to be received in the future. Meanwhile, in the bond market, the condition of economic fundamentals will encourage the issuance of coupons and the price of the securities referred to. At least, there are two main factors related to economic fundamentals in the context of exchange rates. First, is a fundamental condition that determines the exchange rate based on dynamic conditions in the goods market which gave rise to the concept of purchasing power parity (PPP). The PPP concept emphasizes the assumption that basically all currencies have the same purchasing power in various countries. However, aggregate changes in supply and demand in each country will change the purchasing power of a country's currency relative to other country's currencies. Second, the concept that comes from the dynamics in the asset market which gave rise to the concept of uncovered interest rate parity (UIP). UIP assumes that returns on asset ownership will equal the value of different currencies if converted into the same currency.

Then, in the context of modern literature, fundamental factors also include a new approach, namely the microstructure approach. The fundamental concept of exchange rate determinants based on this concept emphasizes the importance of paying attention to information and institutional factors in analyzing exchange rate movements. If seen in Figure 2, the determinant of the exchange rate is fundamentally influenced by the three approaches, although the microstructure approach still raises debate if categorized as a fundamental factor. As the commodity market approach gave birth to the PPP concept, the asset market approach also gave birth to the concept of exchange rates, known as UIP, Flexible Price Model (FPM), Sticky Price Model (SPM), Portfolio Balance Approach (PBM), and General Equilibrium (GE). Meanwhile, the concept of microstructure gave birth to the concept of noise trader exchange rates, and others. In the general context, the concept of PPP is most

widely known and in the previous era it was best to explain changes in exchange rates caused by changes in prices of goods between countries. Next is the concept of balance of payments (BoP). This concept essentially explains changes in exchange rates due to the dynamics of the flow of funds through the current account and capital. Meanwhile, the monetary approach is the simplest concept to explain that the exchange rate is determined by the interaction between demand versus supply of the domestic currency, and future estimates of the level and growth of the monetary aggregate stock.

Concepts, Dynamics and Response of Exchange Rate Policies in Indonesia Asset assets are also suspected to affect changes in exchange rates assuming there is a perfect substitution between domestic and foreign assets. Changes in the demand / supply of a valuable asset will affect the exchange rate as long as the movement is not inhibited by non-fundamental factors. However, the fundamental economic approach is increasingly difficult to explain the phenomenon of several exchange rate dynamics

2.4 Gross Domestic Product (GDP)

Gross domestic product (GDP) is the best economic indicator to measure a country's economic development. Mankiw (2007: 17), GDP is the sum of the total output produced within the borders of a country in one year. GDP measures the value of goods and services produced in the country at a certain time. So, the higher the GDP growth rate will be indicated the higher the rate of growth of consumption of the residents in a country, which will affect the increase in the level of demand for the goods from companies that manufacture consumer goods. After knowing what can and is not measured by GDP, then

we must know the components of GDP. GDP (which is shown

as Y) divided into four components: consumption (c), investment (I), state expenditure(G), and net export (NX):

$$Y = C + I + G + (N-X)$$

This equation is an identity equation - an equation that must be true seen from how the equation variables are described. Component these are:

- Consumption is consumption of goods and services by households.
- Investment (investment) is the purchase of goods that will later be used to produce more goods and services.
- Government purchases include government purchases and services by local, state, and federal government.
- 4. Neto (net exports) exports are the same as buying domestic products by people foreign (export) minus the purchase of foreign products by citizens (import) (Mankiw, 2006: 11-13).

3. RESEACH PARIDIGM

Based on the conceptual theory and previous studies, the research paradigm can be formulated as follows:

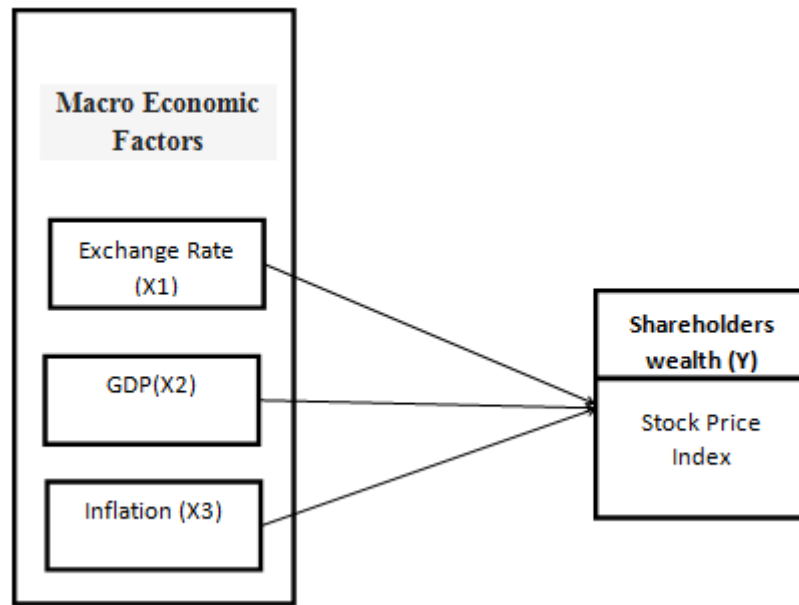


Figure 2 Research Paradigm

3.1 Hypothesis

Based on the research paradigm above, the hypotheses in this study are:

Hypothesis 1: the exchange rate has a significant effect on the stock price index

Hypothesis 2: GDP has a significant effect on stock price index

Hypothesis 3: Inflation has a significant effect on stock price index

Based on empirical framework, the empirical model is specified as follows:

$$SPI = \beta_0 + \beta_1 ER + \beta_2 GDP + \beta_3 I + u$$

Explanation :

SPI : Stock price index (Y)

ER : Exchange Rate (X1)

GDP : Gross Domestic Product (X2)

I : Inflation (X3)

Based on the above function, this study consists of 3 independent variables, namely ER (X1), GDP (X2) and I (X3), and 1 dependent variable, namely SPI (Y). The data used in this study is the stock price index and macro-economic factors in the Southeast Asia countries in the period 2009-2014. Because the data is paneled, where there are time series and cross section data, so the method of data analysis is the regression data panel analyzing, using Eviews8 as a tool in data processing.

The advantages of panel data regression according to Wibisono (2005) include: First. Panel data is able to take into account individual heterogeneity with allow individual specific variables; second. Ability to control. This heterogeneity then makes the data can be used to test and building more complex behavioral models; Third, panel data based on themselves in the observation of repeated series (time series), so the data method. The panel is suitable for use as a study of dynamic adjustment; Fourth, the height number of observations has

implications for more informative data, more varied, and colinearity (multicollinearity) between diminishing data, and degrees of freedom. (degree of freedom / df) is higher so that more estimation results can be obtained efficient; Fifth, panel data can be used to study complex models' behavior; Sixth, the data panel can be used to minimized as that might be caused by aggregation of individual data.

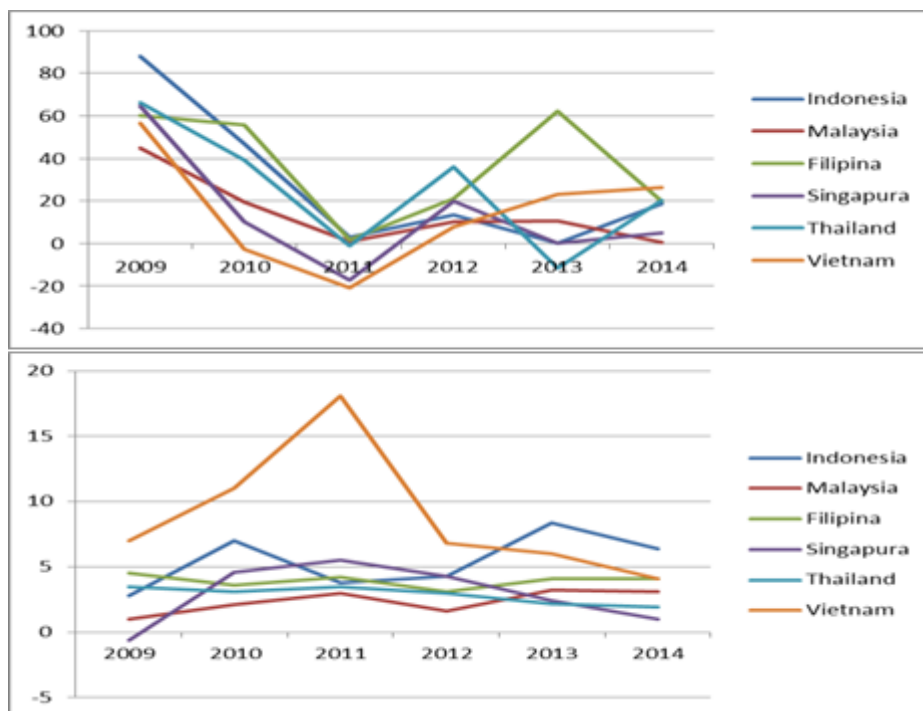
4. DISCUSSION AND RESULTS

Table 2. Panel Data Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOG(Inflation)	-0.094344	0.220046	-0.428748	0.6751
LOG(Exchange Rate)	0.830918	0.074788	11.11032	0.0000
LOG(GDP)	-0.269988	0.067007	-4.029226	0.0014
C	2.448922	0.324386	7.549405	0.0000

4.1 Regression Analysis Of Inflation To Stock Price Index

Based on the result of the regression test of the inflation on share price index, there was a gain in prob with a coefficient of 0.6751 -0.0943. This shows a negative effect but not significant, Because the prob value is greater than 0,05. sebenarnya hasil ini masih sejalan dengan teori **The volatility Hypothesis** by Kevin and Perry, 1998, yang menyatakan ada pengaruh negatif inflasi terhadap pergerakan saham, namun dalam penelitian ini pengaruh negatif tersebut ada tetapi tidak signifikan. No significant result is possible because movement of inflation is still relatively under control, but if the regulator fails to control the growth rate of inflation, then inflation would be Able to suppress the movement of stock indices, as investors will have a negative response if the government failed to issue appropriate policies, so as to mend the discount price on the stock market as companies failed to create wealth for shareholders. The results of this study have the same results with Bai (2014) who found inflation negatively correlated but did not have a strong correlation with stock price index in China.

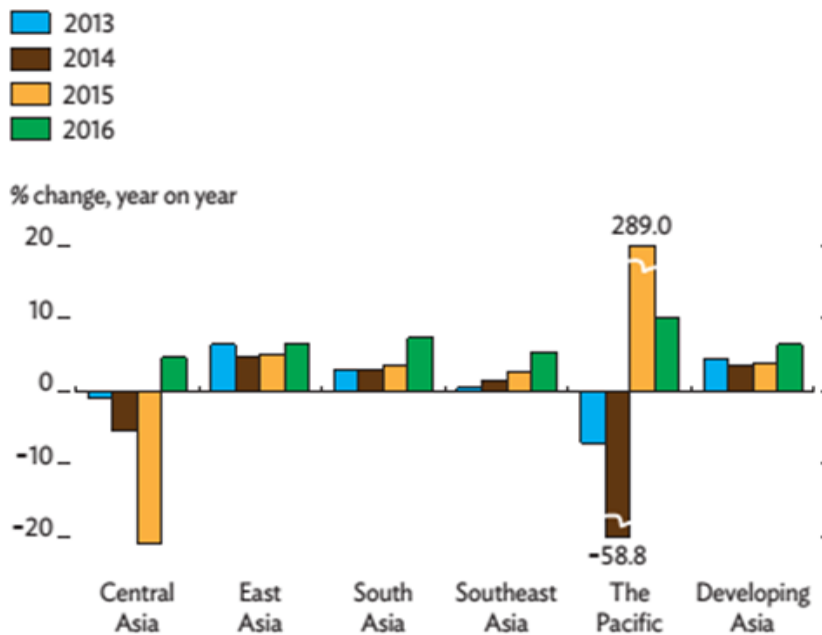


Country/years	2009	2010	2011	2012	2013	2014
Indonesia	2.8	7	3.8	4.3	8.38	6.4
Malaysia	1	2.1	3	1.6	3.2	3.1
Filipina	4.5	3.6	4.2	3.1	4.1	4.1
Singapura	-0.6	4.6	5.5	4.3	2.4	1
Thailand	3.5	3.1	3.5	3	2.18	1.9
Vietnam	7	11	18.1	6.81	6.04	4.1

Source: ASEAN Development Bank (2015)

Figure 3 The Growth of Stock Price Index and Inflation Growth

Based on the inflation data for the period 2009-2014 inflation had a positive growth which meant that inflation continued to rise, and was slowing. Improving the economies in the Southeast Asian region called for a variety of appropriate government policies, as well as the stability of the financial system to bring down the high inflation. Based on data available, the highest inflation growth rate was in Indonesia, it amounted to 6.4% while the lowest growth was in Singapore which grew by 1%. Some economies in southeast Asia were stable due to the increased exports, while also a decline in inflation growth was caused by the decline of oil prices in 2014, particularly in Indonesia, there was no rise in oil prices in 2014.



Source: Asian Development Outlook database.

Figure 3 Export in The Asia Pacific (Asian Development Bank 2015)

The test results showed an increase in inflation which did not affect the movement of the stock price index in the countries of Southeast Asia significantly, indicating that investor confidence in public companies in Southeast Asia had so far not been affected by inflation, its mean inflation condition in period 2009-2014 did not affect the company's ability to create shareholder wealth.

The inflation rate can influence positively or negatively depending on the degree of inflation itself. Inflation may harm the overall economy and can put a company at risk of bankruptcy. (Samson, 2006: 201) concluded that high inflation will drop the price of shares in the market.

While low inflation would result in a very slow economic growth and ultimately stock prices move too slowly.

The negative effects of inflation on the stock price index requires the government to issue a policy to suppress it, because investors' confidence will be reduced if inflation rises, which can depress stock prices where the stock price is a description of shareholder wealth.

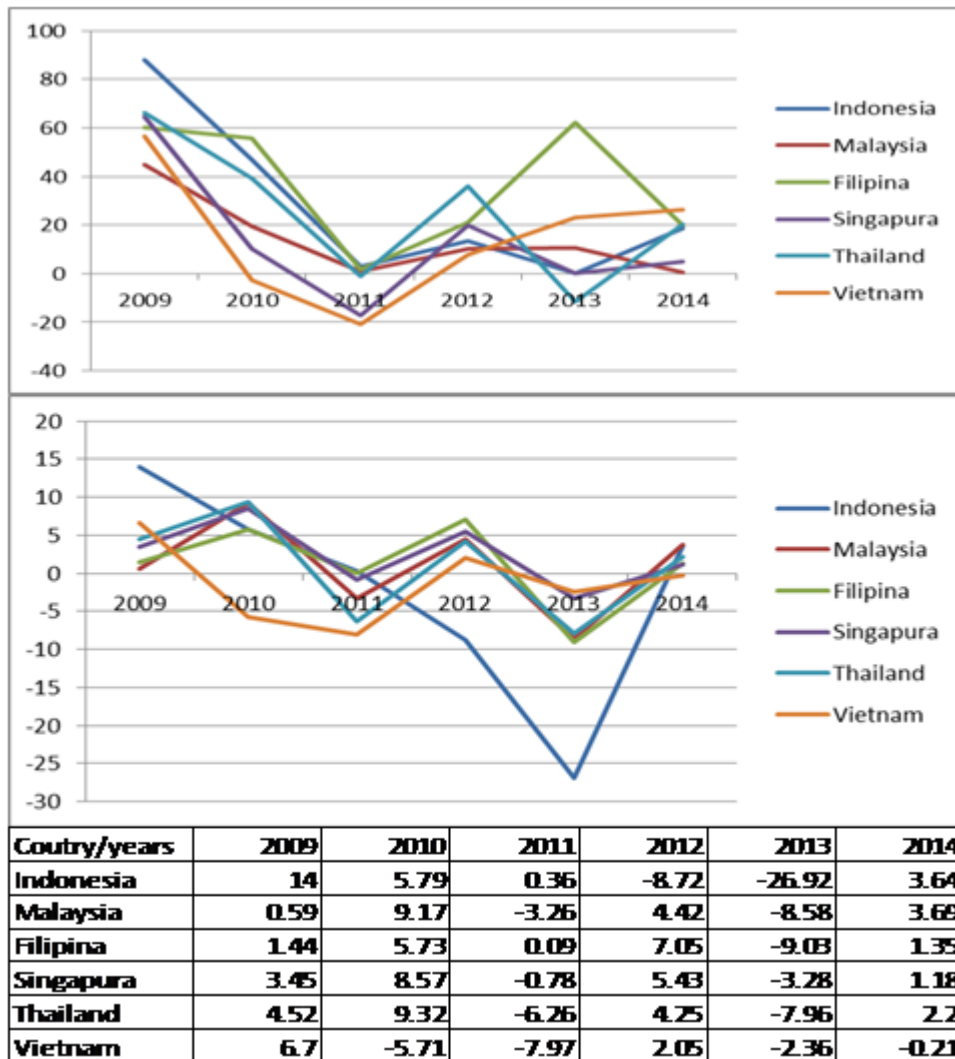
Hooker (2004) found that the rate of inflation significantly affects stock price. The increase in inflation is a relatively negative signal for investors in the capital market. Inflation increase revenue and expenses. If the increase in the cost of production is higher than the increase in prices that can be enjoyed by the company then the company's profitability will drop. If the profits of the company are small, it will result in the reluctance of investors to invest their funds in these companies, so the stock price will decline.

The policy of some countries is to very effectively lower the rate of inflation growth. Vietnam and Indonesia are two countries in Southeast Asia that successfully suppressed high inflation growth rate. In Indonesia, inflation ebbed over the first 8 months of 2014 from 8.1% a year to 4.0%, as an impact of fuel price hikes in June 2013 faded and food price inflation slowed. In November, the incoming government raised subsidized prices of gasoline by 31% and diesel by 36%, which pushed inflation back to 8.4% in December. Electricity tariffs also rose during 2014. For a year, inflation averaged 6.4%. In Vietnam Inflation decelerated to an average of 4.1% in 2014, the lowest in 10 years, owing to better food production and lower global prices for oil and commodities. By the end of 2014, inflation was just 1.8%. The economy grew by 6.0% in 2014, the strongest pace since 2011. Industry expanded by 7.1%, against 5.4% in 2013, benefitting from foreign direct investment (FDI) that boosted growth in manufacturing to 8.5%. Recovery in demand for property lifted growth in construction to 7.1%. Agriculture picked up to grow by 3.5%, supported by higher exports of fish and shrimp. (Asian Development Outlook, 2015).

Meanwhile for companies when there is inflation growth, it takes weeks to mitigate the risks arising from inflation, companies can hedge against its commodities, while pressing the operating costs, they need to look for alternative sources of power which is cheaper. For example PT. ANTAM ANTAM has a commitment to fuel conversion of Industrial Diesel Oil and Marine Fuel Oil with cheaper fuels such as natural gas, coal or hydropower. The success of the company to improve efficiency will keep the company's ability to create value for shareholders. Hooker (2004) found that the rate of inflation significantly affects stock price. The increase in inflation is a relatively negative signal for investors in the capital market. Inflation increases revenue and expenses, if the increase in production costs is higher than the increase in prices that can be enjoyed by the company's profitability, the company will go down. If the profits of the company are small, it will result in reluctance of investors to invest their funds in these companies so the stock price decreases.

4.2 Results of Regression Analysis Exchange Rate to Stock Price Index

The result of the exchange rate on the price of the stock has a significant positive effect on the movement of the stock index, indicating that the weaker exchange rate; countries of Southeast Asia region also experience weakened stock price index. These results together with the research results of Ooiet.al (2009), who found that there is a positive and significant impact of the exchange rate on stock index indicate that company's ability to create shareholder value is very dependent on exchange rate movements. Exchange rate movements in the year 2009-2014 were very volatile but generally, when exchange rates in southeast Asian countries weakened the stock price index also weakened.



Source: ASEAN Development Bank (2015)

Figure 4. The Growth of Exchange Rate and Stock Index

Thus, it's important to pay attention to exchange rate movements, because exchange rate movements can affect the movement of the company's shares significantly. Profit are rated as a positive signal for shareholders, when a company makes profits, it indicates that it is in good health, because it is likely that the company is able to pay dividends to its shareholders, the dividend payout would add shareholder value, and when the dividend are announced the market responds positively and trading volume increases thereby increasing the stock price.

Based on the results of research that shows significant positive results of the exchange rate on the value of shares, the governments of ASEAN countries need to formulate policies in maintaining exchange rate stability, some policies that can be taken regarding the exchange rate, are:

Limiting the use of foreign currency (limit on buying foreign currency) Regarding the current account control policy, limiting the amount of foreign currency purchases is expected to reduce the demand for foreign currency, so as to encourage the stability of local currency.

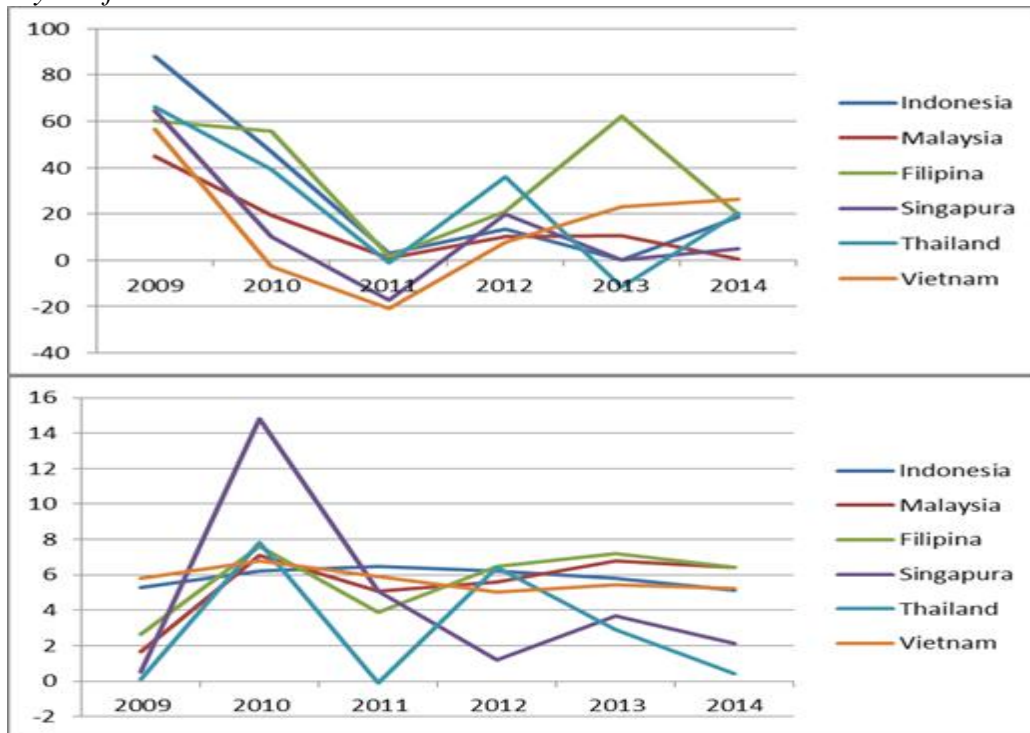
Increase Exports through Intra-ASEAN Exports and export to Latin American countries, Africa, South Asia and China Contribution of Intra-ASEAN Exports and Intra-ASEAN FDI

ASEAN-5 Countries for 10 years, showing that the highest data on Intra-ASEAN Exports is Singapore with 40.4%, followed by Malaysia 19.3%, Thailand 17.7%, Indonesia 11, 8%, and the Philippines 3.1%. While the highest Intra-ASEAN FDI is Indonesia 40.3% followed by Singapore 24.4%, Malaysia 12.7%, Thailand 6.9%, and the Philippines 0.3%. (Fathoni, Al Musadieg&Supriono. 2017), more continued Fathoni, Al Musadieg&Supriono in his research stated that the existence of intra ASEAN trade has succeeded in increasing GDP, so as to be able to support the country's economic movement. Such conditions certainly motivate investors to invest one of them in the form of shares, high stock trading volume encourages a positive movement of the company's stock price, thus increasing the company's wealth. The export destination of ASEAN Latin America, Africa, South Asia, these countries can be good opportunities for products of ASEAN countries.

Some Southeast Asian countries also have advantages that can be maximized, such as tourism, many tourists come to ASEAN countries will strengthen the economic sector and can stabilize the exchange rate. Foreign tourists will exchange their country's currency into local currency, so the demand for local currency will increase. Related to ASEAN the TTCI 2011 (World Economic Forum, 2012) draws tourism sector a very mixed picture of the region. Singapore (10th), Malaysia (35th), Thailand (41st), Brunei Darussalam (67th), Indonesia (74th), Vietnam (80th), the Philippines (94th), and Cambodia (109th) span almost the entire rankings of 139 economies . (World Economic Forum, 2012). From the results of the study, in fact ASEAN countries have the potential to continue to grow, they can work together to improve the tourism sector by encouraging companies engaged in the tourism sector to create an ASEAN visit package by highlighting the uniqueness of each country.

To overcome the rise and fall of the Fed's interest rates, namely by encouraging public investment in securities, especially ownership of debt securities, it should be owned by domestic investors, so the effect of the interest rate increase and decrease by the fed, according to Thomas Rookmaaker, Director Fitch Rating of debt securities that are more owned by domestic people than foreigners. Bank Central Asial Chief Economist (BCA) David Sumual said that the number of foreign investors who released their holdings in Government Securities (SUN) and bonds was one of the causes of the weakening of the rupiah exchange rate.

4.3 Analysis of Gross Domestic Product and Stock Price Index



Country/years	2009	2010	2011	2012	2013	2014
Indonesia	5.3	6.2	6.5	6.2	5.78	5.12
Malaysia	1.65	7.1	5.1	5.6	6.8	6.4
Filipina	2.65	7.6	3.9	6.5	7.2	6.4
Singapura	0.5	14.8	5.1	1.2	3.7	2.1
Thailand	0.1	7.8	-0.1	6.4	2.9	0.4
Vietnam	5.8	6.8	5.9	5	5.42	5.25

Source: ASEAN Development Bank (2015)

Figure 5. The GDP And Stock Index

The results show a significant negative effect on the GDP on the stock price index in the countries of the Southeast Asian region, it is because of the GDP calculation, investment in stocks is not classified as investment, but classified as savings. So because there is no element of stock investment in the calculation of GDP, the effect of GDP on the value of shares becomes negative, because the higher the GDP, the higher the possibility of consumption, the investment outside of investment in high stocks, high exports and high spending government, meaning that public money is more widely used for consumption and investment outside the stock, on the contrary if GDP is low, the value of shares will rise, because the possibility of people who used the money for consumption goods and investments outside of shares, began to invest, so the stock trading volume will rise and push the stock price towards more positive.

$$GDP = Consumption + Investment + Government Expenditure + (Export-Import)$$

Because if these components go up, it will reduce the amount of money invested by the community in the capital market, so that it will be wrong if the results of this study show the results of the negative influence of GDP on stock prices. For this reason, the authors suggest that regulators need to increase socialization for the community, that investments can be made through the capital market by purchasing shares securities, thereby encouraging trading

volume of the company's shares, high stock trading volume will encourage stock market prices to move positively. Investments in stock exchanges that have been carried out in collaboration with educational institutions, need to be continuously improved, because in addition to capital market education facilities for students, this capital market lab can be a driving force for stock market prices on the Exchange, because when students are alumni and work some of them will continue to be capital market members and continue to invest their funds in the capital market. Good education for the community, making them more familiar with capital market products, and encouraging the number of securities transactions in the capital market, so that stock market prices rise and shareholder wealth is created.



Source : ASEAN Development Bank (2015)

Figure 7. The Growth of GDP and Stock Index

5. CONCLUSION

Companies' abilities in region of Southeast Asia in increasing wealth for shareholders is influenced by the exchange rate and GDP, a stronger exchange rate would increase investor confidence in the capital market so that it will increase the prices of the stocks, while the increase in GDP will lower stock market prices; an increase in GDP indicates rising consumption, investment in real sector, exports or government spending thus low savings which also means lower investment in stocks and the capital market in general.

Some policies that can be carried out on macroeconomic factors to support the role of the capital market in creating shareholder wealth, including:

Policies related to exchange rates: limiting purchases of foreign currencies, Increasing intra-ASEAN exports and increasing the number of visitors to other countries through events and tourism.

Policies related to GDP: because there is no element of investment in shares in the calculation of GDP, so the higher GDP will reduce the use of public money in investments in stocks. This is evident from the negative and significant test results, so that what needs to be done is to encourage investment in the capital market in Southeast Asian countries which are generally still low, by educating the public.

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