

ABSTRACT

Capital markets is an indicator of economic progress that supports the economy of a country. In this decade, the stock market has expanded rapidly. It caused by technology change, liberalization, and globalization. These change affect the capital markets' behaviour, cause a long-term equilibrium, and encourage cointegration between the world's capital markets. There is a cointegration between capital markets when two separated markets have the same movement and there is correlation between their index. Capital markets in the same region tend to have the same movement and there is a high contagion effect between them (Climent and Meneu, 2003). During the observation period, years 2001 – 2010, there is a phenomenon where Jakarta Composite Index (JCI) has a different movement with the world's index and there is no correlation between them too. Several previous studies have the same results with this phenomenon. The purpose of this study is to determine relationship between JCI and several world's capital market index, like Dow Jones Industrial Average (DJIA) Index, Financial Times Stock Exchange (FTSE 100) Index, Hang Seng Index (HSI), Nikkei 225 (N225) Index, and Straits Times Index (STI).

Analytical method used in this study is Johansen Cointegration Test and supported by Augmented Dickey-Fuller (ADF) Test, Granger Causality Test, dan correlation test. Augmented Dickey-Fuller (ADF) Test is not only used to supporting Johansen Cointegration Test but also used to performing a partial cointegration test between the world's capital markets. This study uses monthly data from the years 2001 – 2010 for each study variable.

The results of this study indicate that there is cointegration between the stock markets and the capital markets cointegrated partially. There is a correlation between the world's stock markets with Indonesia Stock Exchange but not all the capital markets have a causality with Indonesia Stock Exchange.

Keywords : capital market, globalization, cointegration