

ABSTRACT

This study addresses the issue of integration between capital markets through contagion and spillover effects over the period 2004-2024. The contagion effect of inter-market shocks is identified through tracing the flow of shocks between one market and another, measuring the impact caused by inter-market contagion, and measuring the time needed to transmit shocks from one market to the next.

This study uses the Vector Autoregression (VAR) method to analyze the contagion effect on a sample consisting of the composite stock price index of Indonesia and its 10 major trading partners. The 10 partner countries are China, Singapore, the United States, Japan, India, Malaysia, South Korea, Thailand, Vietnam, and Australia. The data used are monthly returns of the eleven stock indices that have been adjusted for inflation to obtain real return data. The methods used to answer research problems include Granger Causality, VAR analysis, and Impulse Response Function (IRF).

The results of the Granger Causality analysis show the existence of a causal relationship pattern between several capital markets. The results of the VAR analysis show that the impact caused by internal factors is more significant than shocks from external markets. While the IRF results show that the shock response begins in the first period and begins to disappear in the third period. The results of the three analyses indicate the integration between capital markets that encourages the contagion effect when there is a shock in one market.

Keywords: Capital market integration, VAR, Contagion Effect, Spillover Effect