

STOCK PRICE ASYMMETRIC RESPONSES: DOES INFLATION OR INTEREST RATE MATTER?

Peck-Ching Sia¹, Choi-Meng Leong², Chin-Hong Pua³

^{1,3}Universiti Malaysia Sarawak, ²Ucsi University

Abstract

Background - *The stock market is becoming an essential and inseparable part of the Indonesia's economy. Macroeconomics fundamentals play an essential role in economic activities, thus, affect the stock market performance. This paper studies the asymmetry relations between macroeconomic fundamentals toward stock price.*

Purpose - *The paper analyses both asymmetric effect of inflation and interest rate on Indonesia stock market.*

Design/methodology/approach - *This paper utilises the Nonlinear Autoregressive Distributed Lags (NARDL) model over the period 1999:Q1 to 2021:Q4 to examine the asymmetric cointegration of inflation rate and interest rate by analysing two different models: Asymmetry Inflation Rate Model and Asymmetry Interest Rate Model.*

Findings - *The bounds test of the NARDL specification suggests the presence of cointegration among the variables. The estimated NARDL model affirms the presence of asymmetries in inflation rate towards stock price. From the analysis, the presence of asymmetries is detected in both long-run and short-run in asymmetry inflation model while absence in interest rate model. More specifically, in Asymmetry Inflation Rate Model, an increase in inflation rate tends to lead to a decrease in the stock price while the decrease in inflation rate does not seem to be related to stock price. In addition, economic development and exchange rate show positive and significant effect on stock prices in short run.*

Research limitations - *As not all macroeconomics variables are asymmetric for all countries, it is interesting to study the effect of asymmetric nature of various variables on stock market.*

Originality/value - *This study supports the existence of an asymmetric effect between inflation and stock market. Asymmetry response of inflation and interest rate in two different models reflect their unique effects on Indonesia stock market.*

Keywords : Stock market, inflation, interest rate, asymmetry, Indonesia.
