

ABSTRACT

This study attempts to analysis Jakarta Islamic Index (JII) using Cointegration Analysis and Vector Error Correction Model (VECM). It explores to compare a parallel and unrestricted counterpart of JII is the Jakarta Composite Index (JCI/IHSG) which tracks the price performance all of the company which is listed in Indonesian stock market. Of that index, there's only about 30 company meet the Sharia criteria, that construct Jakarta Islamic Index.

Using cointegration techniques, we place JII under analytical scrutiny to find long-term relationship with conventional index which is Jakarta Composite Index (IHSG), furthermore Vector Error Correction Model (VECM) were used to find any short-term causalities of that two index.

The result of study with Sharpe Ratio and statistic description explain that JII more risky and better performance than JCI. Trivariate and bivariate cointegration model, explain how JII was still linked with other variables, like SBI and JCI, but with VECM method that used for tracing causality between variable and a short-term relationship, JII had no short-term causalities with JCI and SBI, that's proved JII more influenced by broadmarket factors beside interest rate factor.

Keywords: *Cointegration method; VECM Analysis; Sharia Principles; JII; IHSG; SBI*