ABSTRACT

The aims of this research are to identify causality relationship between Jakarta Islamic Index (JII), interest rates and exchange rate, and also to analize the influence of consumer price index (CPI) to the variables. JII, interest rates and exchange rate are the endogenous variables, while CPI which is an indicator for inflation is an exogenous variable. The object of this research is all monthly data of JII, interest rates, exchange rate and CPI during January 2005 - December 2016.

Vector Autoregressive (VAR) *method is used to test the hypotheses on the research. Granger causality test, impulse response function analyses, and forecast error variance decomposition analyses also be used to identify causality relationship between JII, interest rates and exchange rate.*

The result shows that JII is significantly influenced by its one month earlier price and exchange rates. There is two-way causal relationship between Jakarta Islamic Index and exchange rates based on granger causality test. The test also proves that interest rates is influenced by JII and exchange rates. CPI as an exogenous variable was not shown to have a significant effect on the three endogeneous variables.

Keywords: Jakarta Islamic Index, Interest Rates, Exchange Rate, Consumer Price Index, Vector Autoregressive