

ABSTRACT

This research aims to predict the probability of variables that influence the use of derivative instruments as hedging activities in firms. The advantage of firms that knowing which variables is most influence the probability the use of derivative instruments as hedging activities, the firms could protect themselves from loss, that caused from market risk fluctuation, after that firms can increase their value as a result avoid the risk.

The population in this research are the type of business manufacturing firms Automotive and Allied Products listed on the Stock Exchange Indonesia during the period 2006 to 2010. This research used logistic regressions analysis technique, to find sets of variables that affect the probability the use of derivative instruments as hedging activities. Variables used in this research are Debt Equity Ratio, Growth Opportunity, and Firm Size.

Test results used logistic regressions method, showed that the five of variables used in this research there are three variables that affect the probability of firms to use derivative instruments for hedging activities. Those variables that affect the hedging activity are Debt Equity Ratio, Growth Opportunity, and Firm Size.

Keywords: Financial Risk Management, Derivative Instruments, Hedging