

ABSTRACT

The study aims to analyze the causal relationship between the exchange rate and stock index, and the effect of the exchange rate, inflation and BI Rate on stock index and the effect of stock index, inflation and BI Rate on the exchange rate. The exchange rate is used in the study is the exchange rate of the USD/IDR. Stock index is used in the study is LQ45 Index on the Indonesia Stock Exchange.

The study uses monthly data from January 2006 to June 2016. The research method used is the analysis of the VAR estimates, Granger causality test, and analysis of Impulse Response Function and Variance Decomposition.

The results showed that there is unidirectional causality from LQ45 Index to the exchange rate, the exchange rate is not significant effect on LQ45 Index, LQ45 Index have significant and negative impact on the exchange rate, inflation have a significant and negative impact on LQ45 Index, inflation have a significant and negative impact on the exchange rate, BI Rate is not significant effect on LQ45 Index, and BI Rate have significant and positive impact on the exchange rate.

Key words: Exchange Rate, Inflation, BI Rate, LQ45 Index, Vector Auto Regression, Granger Causality Test