

COMPOSITE STOCK PRICE INDEX: INFLATION, INTEREST RATES AND EXCHANGE RATES

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ABSTRACT

The aim of this research is to determine the influence of inflation, interest rates and exchange rates on the Composite Stock Price Index on the Indonesian Stock Exchange. This research uses associative research which aims to analyze the relationship between one variable and another variable or explain the influence of the independent variable on the dependent variable. To propose this hypothesis, multiple regression tests, hypothesis testing, and coefficient of determination are carried out. The sampling technique used in this research was purposive sampling. From the results of this study it is concluded that inflation has a positive and significant effect on the composite stock price index, interest rates have a negative and significant influence on the composite stock price index, the exchange rate has a negative and significant influence on the composite stock price index, and simultaneously inflation, interest rates and exchange rates has a significant effect on the composite stock price index on the Indonesia Stock Exchange in 2020 - 2023.

Keyword: Inflation, Interest Rates, Exchange Rates, Composite Stock Price Index.

INTRODUCTION

Nowadays, investment through the capital market is the most popular thing. This is because the capital market is an alternative investment option that can produce optimal levels of profit for investors. Apart from that, the Indonesian Stock Exchange as the capital market in Indonesia certainly has an important role in the development of the country's economy, not only as a means for investors to invest but also as a means to raise funds which function to directly finance company activities by offering shares to public on the stock exchange which is often called going public (Batubara, 2017). However, before investing, investors need to have a number of information related to share price dynamics in order to make decisions about which shares are worth choosing to invest in. When trading shares, there will certainly be up cycles and down cycles, causing movements in stock prices (Sihombing, 2008). Share price movements must be paid attention to because these movements indicate the performance of the shares and the performance of the company that the issuer is going through (Agustina and Sumartio, 2014). One indicator that is often used to monitor stock price movements in general is using the composite stock price index which is a composite index of all shares listed on the Indonesia Stock Exchange (Jayanti et al, 2014). It should be noted that movements in the Composite Stock Price Index are also caused by several factors, including macroeconomic factors such as inflation, interest rates and exchange rates. For

Proceeding 2nd Medan International Economics and Business

Volume 2, Issue 1, 2024

“Human Resource Transformation and Collaborative Innovation to Build Independent and Competitive Business in the Digital Era”

this reason, investors' ability to understand and predict future macroeconomic conditions is very useful in making profitable investment decisions (Harsono and Worokinasih, 2018). This is because the macroeconomic environment is an environment that influences the company's daily operations. Inflation as a macroeconomic factor is able to more or less have an impact on stock activity and the movement of the composite stock price index in the capital market. According to Samsul (2015), low inflation will result in slow economic growth. This slow economic growth causes stock prices to move slowly and in the end the composite stock price index will also move slowly. Bank Indonesia states that the BI Rate or interest rate is a policy that reflects the attitude or stance of monetary policy determined by Bank Indonesia and announced to the public." Interest rates influence the composite stock price index heavily. In other words, if interest rates increase, investors tend to withdraw their stock investments and choose to invest in investments that offer a safer rate of return, such as bank savings, time deposits, gold investments and so on. This causes investment in the capital market to be quiet and results in a weakening of the composite stock price index (Arif, 2014).

Another macro economy that can influence stock activity and move the composite stock price index is the exchange rate or what is known as the exchange rate. The exchange rate is actually a kind of price in exchange. The exchange rate referred to in this research is the Rupiah exchange rate against the US Dollar (IDR/USD). The weakening of the rupiah exchange rate can affect the rate of return on an investment companies, especially companies with high levels of imports and foreign debt. The weakening of the rupiah exchange rate will result in greater costs borne by the company, thereby suppressing profit levels which will ultimately reduce share prices. If this happens to almost all stocks, of course the composite stock price index will also experience a decline (Riantani and Tambunan, 2013). Nurwani (2016) stated that if inflation increases, the composite stock price index will decrease." Supported by research by Astuti et al (2013) which states that inflation has a negative and significant influence on the composite stock price index.

Table 1. Average Inflation, Interest Rates, Exchange Rates, Composite Stock Price Index Year 2020 – 2023

Information	2020	2021	2022	2023	Average Per Year
Inflation	6.42%	6.38%	3.53%	3.81%	5.04%
Interest rate	7.54%	7.52%	6.00%	4.56%	6.41%
Exchange rate	Rp. 11,870	Rp. 13,482	Rp. 13,328	Rp. 13,401	Rp. 13,020
IHSG	4919.58	4874.83	5059.58	5785.08	5159.77

Source: www.idx.co.id (2020) and www.bi.go.id (2020)

When compared with the analysis results obtained, it turns out that there is agreement with the theory put forward by Samsul (2015) and research conducted by Jayanti et al (2014), where the data obtained shows that the average value of inflation has decreased gradually from 6.42% in 2020 it will be 6.38% in 2021. In 2022 there will be a significant decrease, namely to 3.53%. However, in 2023 inflation will increase to 3.81%. According to Arif (2014), if interest rates increase, the composite stock price index will weaken. The theory

Proceeding 2nd Medan International Economics and Business

Volume 2, Issue 1, 2024

“Human Resource Transformation and Collaborative Innovation to Build Independent and Competitive Business in the Digital Era”

put forward and research conducted by Krisna and Wirawati (2013) are in accordance with the facts that occur in the field where it can be seen that interest rates continue to decline every year. It can be seen that in 2020 the interest rate was 7.54%, which has decreased in 2021, namely 7.52%. In 2022 there will again be a more significant decline, namely 6.00%. The decline continues until 2023 at 4.56%. Based on research by Riantani and Tambunan (2013) stated The weakening of the Rupiah exchange rate against the USD will cause the composite stock price index to also weaken. The data obtained turns out that there are field facts that do not match, showing that the Rupiah exchange rate tends to fluctuate against the USD from 2020 - 2023. In 2020 the exchange rate was at Rp. 11,870/USD and then the Rupiah exchange rate fell to Rp. 13,482/USD in in 2021. In 2022 the Rupiah exchange rate against the USD strengthened slightly to Rp. 13,328/USD, but weakened again in 2023 to Rp. 13,401/USD. The exchange rate weakened but the stock price index actually increased. Therefore, this data is not in accordance with the theory put forward by Riantani and Tambunan (2013) as well as previous research conducted by Sudarsana and Candraningrat (2014).

LITERATURE REVIEW

Composite Stock Price Index

The Composite Stock Price Index is a stock price index number that has been compiled and calculated by producing a trend, where the index number is a number that is processed in such a way that it can be used to compare events which can be changes in stock prices from time to time (Jogiyanto, 2013, p. 147). Another opinion says that the Composite Stock Price Index is a value used to measure the performance of shares listed on a stock exchange. Some of these Composite Stock Price Indexes are issued by the relevant stock exchange officially and some are issued by certain private institutions such as financial mass media, financial institutions, etc. (Hermuningsih, 2012, p. 80). Based on the definition above, it can be concluded that the composite stock price index is a stock price index number that has been compiled and calculated by producing a trend which is used to measure the performance of shares listed on a stock exchange. The stock price index has a function. The function of the composite stock price index is to assess the general market situation or measure whether market prices are experiencing fluctuations or not (Ahman and Indriani, 2007, p. 84). Another function stated by Widjajanta et al (2007, p. 47) is that the development of the composite stock price index functions as a description of social, political, economic conditions, trust and security conditions. To calculate the composite stock price index there are principles. Widoadmodjo (2015, p. 125) states that in principle the calculation of the composite stock price index is no different from the calculation of the individual stock index. However, in calculating the composite stock price index you have to add up all the existing (listing) stock prices. And another opinion expressed by Ahman and Indriani (2007, p. 84) states that the method used to calculate the composite stock price index is divided into 2, namely the average method and the weighted average method. As is known, the composite stock price index has the function of viewing the condition of overall stock price movements. However, reading the condition of the composite stock price index certainly requires knowledge. And there is also a way to read the composite stock price index. Liembono (2014, p. 11) states that to read the composite stock price index is to understand *Downtrend*,

Proceeding 2nd Medan International Economics and Business

Volume 2, Issue 1, 2024

"Human Resource Transformation and Collaborative Innovation to Build Independent and Competitive Business in the Digital Era"

Uptrend and Sideway. Apart from that, the composite stock price index can also be read with understanding *Bullish and Bearish* (Widoatmodjo, 2012, p. 255)

Inflation

Inflation is one of the variables that influences stock prices on the market capital. According to Rahayu et al (2016, p. 201) state that inflation is the process of continuously increasing the prices of general goods. Another opinion states that inflation is an increase in the price level of goods and services over time" (Silalahi et al, 2014, p. 213). Inflation rates in various countries, including Indonesia, tend to be high, and some countries even have abnormal inflation rates. Inflation will push prices up, but on the other hand, inflation can actually increase selling prices so that their effects can offset each other, although the magnitude of changes in costs is not necessarily the same as the magnitude of changes in income. Inflation is classified based on the level of severity (Hasoloan, 2014, p. 34). Meanwhile, according to Rahayu et al (2016, p. 202) inflation is classified based on its causes and origins. Untoro and TGI (2010, p. 17) state that there are only two causes of inflation, namely inflation due to demand (Demand pull inflation), and inflation due to the push of production costs (Cost Push Inflation). Meanwhile, Rahayu et al (2016, p. 204) state that based on the source or cause of its occurrence, inflation is classified into four types, namely demand-pull inflation, cost-push inflation, mixed inflation and imported inflation. inflation). The effects of inflation are the effects of inflation on unemployment and the effects of inflation on people's prosperity (Naf'an, 2014, p. 124). Other effects arising from inflation are the effect on income (Equity Effect), the effect on efficiency (Efficiency Effects), the effect on output (Output Effects), and the effect of inflation on economic development (Rahayu et al., 2016, p. 213).

Interest Rate

Bank Indonesia states that the BI Rate or interest rate is a policy that reflects the monetary policy attitude or stance set by Bank Indonesia and announced to the public. According to Ismail (2010, p. 131) "The interest rate is the price that must be paid by the bank or customer as compensation for transactions between the bank and the customer." Meanwhile, according to Arif (2014, p. 68), interest rates are income (for creditors) or expenses (for debtors) received or paid by creditors or debtors. Based on the statement above, it can be concluded that interest rates are income and expenses for each party that must be paid as remuneration for interbank buying and selling transactions with customers, all of which have been determined by Bank Indonesia and announced to the public. Hasoloan (2014, p. 173) states that interest rates are divided into 2 types, namely real interest rate and nominal interest rate. Meanwhile, according to IBI and LSPP (2014, p. 164) state that in daily banking activities, there are two types of interest given to customers, namely savings interest and loan interest. Interest on deposits and loans is the main income and expense for banks. These two types of flowers are closely related to each other. This can be seen when deposit interest rates increase, deposit interest rates will have an effect on the increase in credit rates. There are four types of interest charges, namely ordinary interest, discount interest, installment loans, and loans with compensation balances (Kasmir, 2009, p. 299). Meanwhile, according to Yetti (2012, p. 161) states that the interest rate charges that are

Proceeding 2nd Medan International Economics and Business

Volume 2, Issue 1, 2024

“Human Resource Transformation and Collaborative Innovation to Build Independent and Competitive Business in the Digital Era”

often carried out by banks are flat rate, sliding rate, floating rate. Factors that influence investment credit interest rates are the BI rate, inflation rate, money supply and the Rupiah exchange rate against the USD (Setianto, 2013, p. 139). Other factors that influence interest rates consist of funding requirements, desired profit targets, quality of guarantee, government policy, time period, company reputation, competitive products, good relations and competition (Muchtar et al., 2016, p. 70).

Exchange rate

Exchange rate or commonly known as the exchange rate. Currency exchange rates between these countries will never be separated from international trade. In an open economy, the exchange rate is one of the important prices, so the exchange rate can be used as a tool to measure the economic condition of a country. The exchange rate is actually a kind of price in exchange. The exchange rate referred to in this research is the Rupiah exchange rate against the US Dollar (IDR/USD). Sukirno (2016, p. 397) states that the foreign exchange rate is defined as the amount of domestic money needed, namely the amount of rupiah needed, to obtain one unit of foreign currency. Meanwhile, according to Amin and Herawati (2012, p. 5), the exchange rate is the exchange rate of foreign currency against the currency of another country. Based on the statement above, it can be concluded that the exchange rate is a sum of money as the exchange rate for domestic currency against foreign currency. The exchange rate changes frequently. These changes can be in the form of appreciation or depreciation. Appreciation of a country's currency can make the price of domestic goods more expensive for foreigners. Meanwhile, depreciation of the country's currency can make the price of domestic goods cheaper for foreigners. Based on the development of the international monetary system since the enactment of the Bretton Woods System in 1947, three types of foreign exchange rate determination systems are generally known, namely the fixed exchange rate system, floating exchange rate, linked exchange rate (Rahayu and Pohan, 2015, p. 111; Putong and Andjaswati (2010). , p. 155). Exchange rates can experience changes caused by many factors. Situmeang (2010, p. 50) suggests that changes in exchange rates are caused by many factors, namely inflation rates, interest rates, income levels, government control and expectations. Meanwhile, according to Arifin and Hadi (2009, p. 84), the factors causing changes in exchange rates are divided into factors causing direct exchange rates and factors causing exchange rates indirectly. For approaches to the exchange rate model, namely the Goods Market Approach, Asset Market Approach, and Market Microstructure Approach (Darsono and Rahman, 2018, p. 30). Other approaches used to determine currency exchange rates are the monetary approach and the market approach (Azis et al., 2015, p. 268).

METHOD

The approach in this research uses an associative approach. The type of data used is quantitative, namely in the form of numbers using statistical processing figures, structures and controlled experiments. The population in the research is data on the composite stock price index, inflation, interest rates and exchange rates. The sample selection procedure was carried out using a purposive sampling technique, so the sample in this study was 192

Proceeding 2nd Medan International Economics and Business

Volume 2, Issue 1, 2024

“Human Resource Transformation and Collaborative Innovation to Build Independent and Competitive Business in the Digital Era”

consisting of composite stock price index data samples, inflation, interest rates and exchange rates calculated from January 2020 – December 2023 for each data.

RESULT

Multiple linear regression analysis is used to determine the extent of the influence between the independent variable and the dependent variable.

Table 2. Multiple Linear Regression Test Results
Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	Q	
1	(Constant)	8955.561	950,043		9,426	,000
	INF	28,771	37,177	.101	,774	,443
	SB	-333,087	47,177	-.925	-7,060	,000
	EXCHAN GE RATE	-.139	,064	-.216	-2,156	,037

a. Dependent Variable: IHSG

Table 2. Shows the multiple linear regression equation model in this research, namely **$Y = 8955.561 + 28.771 X_1 - 333.087 X_2 - 0.139 X_3 + e$** . Value a = 8955.561

Shows that if the independent variables consisting of Inflation (X1), Interest Rates (X2), and Exchange Rates (X3) are constant or do not change (equal to zero), then the combined stock price index (Y) is 8955,561 rupiah. The regression coefficient value The regression coefficient value This test is intended to detect deviations from classical assumptions in multiple linear regression. However, there are several criteria for classical assumption requirements that must be met to be able to use multiple linear regression, including: This normality test is carried out with the aim of seeing whether in the regression model, the independent variable and the dependent variable have a normal distribution or vice versa.

Normal P-P Plot of Regression Standardized Residual

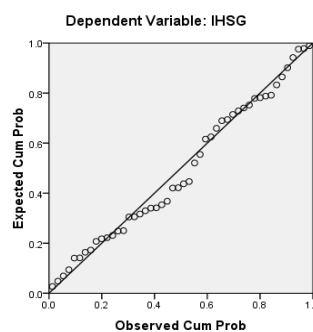


Figure 1. Normal Test Results PP Plot of Regression Standardized Residual

Proceeding 2nd Medan International Economics and Business

Volume 2, Issue 1, 2024

“Human Resource Transformation and Collaborative Innovation to Build Independent and Competitive Business in the Digital Era”

In Figure 1. It can be seen that the points are spread across the diagonal line area and follow the diagonal line, so that the data in this regression model research is more likely to be normal. Apart from using the Normal PP Plot of Regression Standardized Residual graph to test the normality of the residuals, you can use the Kolmogorov Smirnov (KS) statistical test.

Table 3. Kolmogorov Smirnov Test Statistics
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residuals
N		48
Normal Parameters ^a	Mean	.0000000
	Std. Deviation	2.91250236E2
Most Extreme Differences	Absolute	,097
	Positive	,097
	Negative	-.050
Kolmogorov-Smirnov Z		,672
Asymp. Sig. (2-tailed)		,757

a. Test distribution is Normal.

Based on the results of the one-sample Kolmogorov Smirnov statistical test as in table 3 above, it can be seen that the value of Asymp. Sig. (2-tailed) > 0.05, which indicates that the results of this research data are normally distributed.

The multicollinearity test is used to test whether in the regression model a strong correlation is found between the independent variables

Table 4. Multicollinearity Test

Collinearity Statistics		
Model	Tolerance	VIF
1	(Constant)	
	INF	,482
	SB	,479
	EXCHANGE RATE	,818

Based on table 4. above, it can be seen that the three independent variables, namely inflation, interest rates and exchange rates, have VIF values within the specified tolerance limits (not exceeding 5), so that there is no multicollinearity in the independent variables in this research.

Proceeding 2nd Medan International Economics and Business

Volume 2, Issue 1, 2024

“Human Resource Transformation and Collaborative Innovation to Build Independent and Competitive Business in the Digital Era”

Heteroscedasticity testing is used to test whether in the regression model there are differences in variance and residuals from other observations.

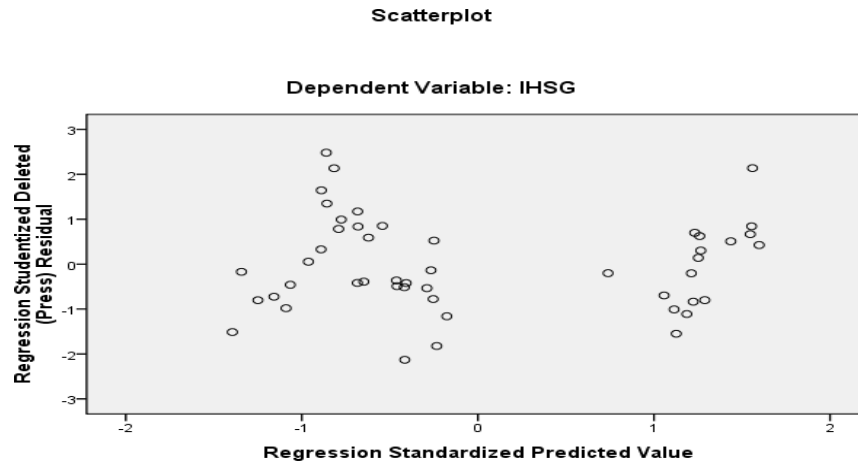


Figure 2. Heteroscedasticity Test Results

Based on Figure 2. the scatterplot graph above, it can be seen that the points are spread randomly and do not form a clear pattern spread below or above the number 0 on the Y axis. This can be concluded that in this study there was no heteroscedasticity.

To see the influence of inflation, interest rates and the exchange rate individually on the composite stock price index, this can be done using the t statistical test. The results shown are as follows:

Table 5. T-test results
Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	Q	
1 (Constant)	8955.561	950,043		9,426	,000
INF	28,771	37,177	.101	,774	,443
SB	-333,087	47,177	-.925	-7,060	,000
EXCHANG-	.139	,064	-.216	-2,156	,037
E RATE					

a. Dependent Variable:
IHSG

Based on Table 5, the tcount value is 0.774, ttable (5%;45) so the ttable value is 2.014 where tcount < ttable. So it can be concluded that the effect of inflation on the composite stock price index for 2020 - 2023 is not significant with a positive relationship.

The tcount value is -7,060 ttable (5%;45) so that the ttable value is - 2.014 where -tcount < -ttable. It is concluded that interest rates have a significant influence on the composite stock

Proceeding 2nd Medan International Economics and Business

Volume 2, Issue 1, 2024

“Human Resource Transformation and Collaborative Innovation to Build Independent and Competitive Business in the Digital Era”

price index on the Indonesia Stock Exchange for the period 2020 – 2023. The tcount value is -2,156 ttable (5%;45) so that the ttable value is - 2.014 where -tcount < -ttable. It can be concluded that the exchange rate has a significant influence on the composite stock price index on the Indonesia Stock Exchange in 2020 - 2023. The F test shows whether variables X1, X2, X3 together have an influence or not on variable Y.

Table 6. F Test Results

ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	7027879.579	3	2342626.526	25,854	,000a
	Residual	3986854.900	44	90610.339		
	Total	1.101E7	47			

a. Predictors: (Constant), EXCHANGE, INF, SB

b. Dependent Variable: IHSG

Based on the results of the Fcount test in table 6 above, it can be concluded that the Fcount value is 25,854 > Ftable 2.82 then seen with the results of a significant value of 0.000 < 0.05 then Ha is accepted (H0 is rejected), while the Ftable value is based on dk = nk-1 = 44 with a level significant 5% is 2.82. From the SPSS calculation results above, it shows that there is a significant simultaneous influence of inflation, interest rates and exchange rates on the composite stock price index on the Indonesia Stock Exchange for 2020 - 2023. The Coefficient of Determination Test is used to see how much the independent variable contributes to the dependent variable. In other words, the value of the coefficient of determination is used to measure the magnitude of the contribution of the variables studied X and Y as dependent variables. The greater the value of the coefficient of determination, the better the ability of variable variable X is large compared to variable Y.

Table 7. Determination Test Results

Model Summary^b

Model	R	R Square	Adjusted Square	RStd. Error of the Estimate
1	,799a	,638	,613	301.01551

a. Predictors: (Constant), EXCHANGE, INF, SB

b. Dependent Variable: IHSG

Based on Table 7, the coefficient of determination value based on the results of data processing using SPSS shows an R-Square value of 0.638, which means that the influence of the variables tested is 63.8%, while 36.2% is influenced by other factors not tested in this research.

DISCUSSION**The Effect of Inflation on the Composite Stock Price Index**

The research results show that the t -count value is 0.774, t -table (5%; 45) so that the t -table value is 2.014 where t -count < t -table. So it can be concluded that the effect of inflation on the composite stock price index for 2020 - 2023 is not significant with a positive relationship. This positive influence can be explained by the theory put forward by Samsul (2015, p. 211) which states that low inflation will result in slow economic growth. This slow economic growth causes stock prices to move slowly and in the end the composite stock price index will also move slowly. This is also supported by previous research conducted by Jayanti et al (2014, p. 7). However, the results of this research are not in line with previous research conducted by Astuti et al (2013, p. 6), which stated that inflation has a negative and significant influence on the composite stock price index.

The Effect of Interest Rates on the Composite Stock Price Index

The research results show that the t -count value is -7,060 t -table (5%;45) so that the t -table value is -2,014 where $-t$ -count < $-t$ -table. It is concluded that interest rates have a significant influence on the composite share price index on the Indonesia Stock Exchange for the period 2020 - 2023. Interest rates influence the composite share price index in a thick way. In other words, if interest rates increase, investors tend to withdraw their stock investments and choose to invest in investments that offer a safer rate of return, such as bank savings, time deposits, gold investments and so on. This causes investment in the capital market to be quiet and results in a weakening of the composite stock price index (Arif, 2014; Listriono and Nuraini, 2015). The results of this study state that interest rates have a negative and significant influence on the composite stock price index. This is in line and in accordance with previous research conducted by Nurwani (2016), Krisna and Wirawati (2013) which stated that empirically the interest rate variable has a negative and significant influence on the composite stock price index on the Indonesia Stock Exchange in 2020 - 2023.

The Effect of Exchange Rates on the Composite Stock Price Index

Based on the research results, it shows that the t -count value is -2,156 t -table (5%;45) so that the t -table value is -2,014 where $-t$ -count < $-t$ -table. It can be concluded that the exchange rate has a significant influence on the composite share price index on the Indonesia Stock Exchange in 2020 - 2023. Unstable changes in exchange rates can have a negative impact on stock activity and movements in the composite share price index on the capital market. This is because if the Rupiah exchange rate against the USD experiences depreciation, it can increase the cost of importing raw materials, so this will have an impact on the company's capital increasing and company profits decreasing and causing share prices to rise but dividends will fall. With the Rupiah exchange rate against the USD experiencing depreciation, of course investors will be more interested in investing their capital in the form of Dollars, so that when the Dollar experiences depreciation, investors will certainly make more profit than investing in the capital market or shares. This will certainly result in a decrease in the purchasing power of shares and ultimately the Composite Stock Price Index will weaken (Listriono and Nuraina, 2015). The results of this research are in line with previous research which states that the exchange rate variable has a negative and significant

Proceeding 2nd Medan International Economics and Business

Volume 2, Issue 1, 2024

“Human Resource Transformation and Collaborative Innovation to Build Independent and Competitive Business in the Digital Era”

influence on the composite stock price index (Kewal, 2012; Sudarsana and Candraningrat, 2014). Based on the results of research regarding the effect of the exchange rate on the composite stock price index, the author can conclude that there is conformity between the research results and previous theories, opinions and research. So the author concludes that the exchange rate has a negative and significant effect on the composite stock price index on the Indonesia Stock Exchange in 2020 - 2023.

The Effect of Inflation, Interest Rates and Exchange Rates on the Composite Stock Price Index

Based on the F test which tests simultaneously whether the three independent variables and the dependent variable, namely inflation, interest rates and exchange rates, have a significant influence on the composite stock price index, the F-count is 25,854 with a significance level of 0.000, while the Ftable is 2.82 with significance. 0.05. Thus, H_a is accepted and H_0 is rejected, so it can be concluded that inflation, interest rates and exchange rates simultaneously have a significant influence on the composite stock price index because $F_{count} 25,854 > F_{table} 2.82$ with a significance value of 0.000 ($0.000 < 0.05$). The results of this research are in line with previous research which states that the variables inflation, interest rates and the rupiah exchange rate simultaneously have a positive influence on the composite stock price index (Harsono and Worokinasih, 2018).

Based on the results of the research conducted, it can be concluded that there is a simultaneous influence of inflation, interest rates and exchange rates on the composite stock price index. Or in other words, increases and decreases in inflation, interest rates and exchange rates simultaneously have a positive and significant effect on the composite stock price index on the Indonesia Stock Exchange in 2020 - 2023.

CONCLUSION

The conclusion of this research is based on the results of the research and discussion previously stated, it can be concluded that inflation has a positive and insignificant effect on the composite share price index on the Indonesia Stock Exchange in 2020 - 2023, interest rates have a negative and significant influence on the composite share price index. on the Indonesian Stock Exchange in 2020 - 2023, the exchange rate has a negative and significant effect on the composite stock price index on the Indonesian Stock Exchange in 2020 - 2023, simultaneously proving that inflation, interest rates and exchange rates have a positive and significant effect on the composite stock price index on the Stock Exchange Indonesia in 2020 - 2023. Suggestions that can be concluded based on this research are that investors who want to invest in the capital market must really be able to read stock movements through the composite stock price index indicator so that investors can make the right decisions in investing.

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Proceeding 2nd Medan International Economics and Business

Volume 2, Issue 1, 2024

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Proceeding 2nd Medan International Economics and Business

Volume 2, Issue 1, 2024

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