

## TABLE OF CONTENTS

TITLE PAGE	i
ABSTRACT	ii
ACKNOWLEDGEMENTS	iii
TABLE OF CONTENTS	v
LIST OF FIGURE	viii
LIST OF TABLE	ix
CHAPTER I. INTRODUCTION	
A. Background	1
B. Problem Statement	5
C. Problem Limitations	6
D. Benefit of the Study	7
E. Organization of the Study	7
CHAPTER II. LITERATURE REVIEW	
A. Literature Review	9
1. Indonesian Capital Market	9
a. Capital Market Understanding	9
b. Jakarta Stock Exchange	10
c. Manufacture Sector in JSX	11
2. Investment Risk	13
3. Beta	14

a.	Historical Market Beta	15
b.	Accounting Beta	16
c.	Fundamental Beta	17
4.	Modern Portfolio Theory	18
a.	The Market Model	18
b.	Capital Asset Pricing Model (CAPM)	20
c.	Efficient Market Hypothesis (EMH)	22
5.	Former Studies about the Relationship between Fundamental Variables and Company's Beta	25
B.	Theoretical Framework	26
C.	Hypothesis Formulation	28
<b>CHAPTER III. RESEARCH METHODOLOGY</b>		
A.	Research Variables	29
1.	Dependent Variable	29
2.	Independent Variable	30
B.	Sampling Method	31
C.	Data Collection Method	33
D.	Data Source	34
E.	Data Analysis Method	34
1.	Determining the parameter of individual stock returns ( $R_i$ ) and market return ( $R_m$ )	34
2.	Estimating the $\beta$ coefficient (systematic risk) of individual stock	35



3. Testing the hypothesis proposed before	36
4. Classical assumption test	39
a. Multicollinearity	40
b. Heteroscedasticity	41
c. Autocorrelation	41
<b>CHAPTER IV. RESEARCH FINDINGS AND DISCUSSION</b>	
A. Determining the Parameter of Individual Stock Returns ( $R_i$ ) and Market Return ( $R_m$ )	43
B. Estimating the $\beta$ Coefficient (Systematic Risk) of Individual Stock	44
C. Hypothesis Test	45
D. Classical Assumption Test	47
1. Multicollinearity	48
2. Heteroscedasticity	51
3. Autocorrelation	52
<b>CHAPTER V. CONCLUSIONS AND RECOMMENDATIONS</b>	
A. Conclusions	54
B. Limitation of the Study	54
C. Recommendations	55
BIBLIOGRAPHY	56
ATTACHMENT	58

## **LIST OF FIGURE**

<b>Figure 1. Total risk, systematic risk, and unsystematic risk</b>	<b>14</b>
<b>Figure 2. Market efficiency level based on market information contained</b>	<b>23</b>
<b>Figure 3. Area when H0 is accepted/rejected in t-test</b>	<b>39</b>

## LIST OF TABLE

Table 1. List of manufacturing companies	32
Table 2. The condition of existence/nonexistence of autocorrelation	42
Table 3. Company's beta result	45
Table 4. t statistic result	47
Table 5. VIF value result	49
Table 6. t statistic after conducting multiple regression analysis using backward elimination procedure	51
Table 7. t statistic using Glesjer test	52