



ABSTRACT

The objective of this paper is to test empirically the performance of Indonesian capital market following the interest rate change. This study also tests the relationship between the interest rate changes and the subsequent performance in various industries, which are financial, manufacture, property and real estate sector. We used market level analysis as well as industry level analysis.

We examine the 2001-2007 period. The sample consists of 65 interest rate change, 27 increase and 38 decrease. We used one market index and three industry index, which are Indonesian Capital Market Composite Index, Financial Sector Index, Manufacture Sector Index and Property and Real Estate Index.

In order to examine the market and industry performance following interest rate change, we test the Mean-Adjusted Return (MAR) and Cumulative Mean-Adjusted return (CMAR) during 21 event windows with t-test statistics. The results indicate that market and industrial performance do not react negatively to the increase of interest rate except property and real estate sector. Meanwhile, market and industrial performance react positively to the decrease of interest rate except financial sector. Besides, there is also an indication that property and real estate performance tends to be more sensitive than other sectors performance.

Keywords: *Interest rate change, capital market, relation between interest rate and capital market.*