THE DYNAMICS AND CAUSAL RELATIONSHIP BETWEEN STOCK MARKET VOLATILITY AND TRADING VOLUME IN INDONESIAN STOCK MARKET FROM 2013-2018

THESIS

Presented as Partial Fulfillment of Requirements for the Degree of Sarjana Ekonomi (S1) in International Business Management Program

Faculty of Economics Universitas Atma Jaya Yogyakarta

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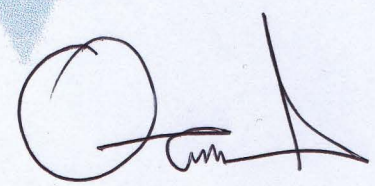

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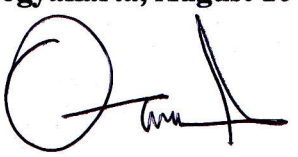

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ABSTRACT

The rate of information flow into the market in generating market volatility has been a much debated issue in the finance research. Moreover, since the rate of information cannot be directly observable and quantifiable, trading volume has been considered to be a good proxy for incorporating such information. The main purpose in this research is to investigate the dynamics and causal relationship between stock market volatility and trading volume in Indonesian stock market from period February 2013 to February 2018. This research using EGARCH and Granger Causality model test as analysis tool. EGARCH and Granger causality model are employed to analyze the volume-volatility relationship.

The analysis indicates that the Indonesian stock market exhibits volatility asymmetry implying that the return volatility responds more to the bad news than to the good news. The analysis also uncover that the movement of trading volume is useful information to predict future return in Indonesian stock market. Furthermore, the result of Granger Causality test shows that there is bidirectional (causality) relationship between trading volume and stock return in Indonesian stock market.

Keywords: Stock Market Volatility, Trading Volume, EGARCH, Granger Causality, Indonesian stock market.