

## **Chapter I**

### **Introduction**

#### **A. Background of the Research Study**

World economy or usually known as global economy is refers to the economy as whole; from all of the countries or nations in this world. It is an important thing that should be concerned of a person or even a country. The balancing of the economy is needed to know exactly if the performance of the economy already in the good position that can bring good impacts and benefits or in the bad position that can bring bad impacts and benefits. In the global, economy of a country that has full attention from other countries is United States of America, while in the market economy; there are two kinds of markets, which are developed market and emerging market. Developed markets are for those countries that are thought as the most developed and less risky, while emerging markets are characterized as transitional. It is meaning that those countries which are including in the emerging markets are the countries that are in the process of moving from a closed economy to an open market economy.

The United States of America (USA) or US is a federal constitutional republic comprising fifty five states and a federal district. It is the largest, powerful and most important economy in the world and it is being the leading to the world's economy for more than a hundred years. For example, in 2010, the US economy was responsible for 20.218 percent of the world's total GDP (PPP) or US\$ 14.624 trillion (Economywatch, 2011) with a per capita GDP is \$47,400 (Nationmaster, 2012). Because of historically, the US economy has been the leading role among the world economies and, given this fairly sovereign position, it is not surprising if investors on fully integrated stock markets are found to closely follow the announcements revealing the information about the outlook of the US economy before make decisions for their investment and it is not

surprising also if many countries in the world also pay full attention to the outlook of the US economy before make decisions for their countries whether from the countries that include in the developed market or emerging market.

Information about the outlook of the US economy can be seen by the US Macroeconomics News Announcements. It is released to the market by various agencies of the federal government. In this study, the US Macroeconomics News Announcements are considered for Consumer Price Index or CPI, Unemployment Situation, Institute for Supply Management (ISM): Manufacturing and Producer Price Index or PPI. The Consumer Price Index or CPI released each month by the Bureau of Labor Statistics approximately 2 weeks after the reference period or on the 13<sup>th</sup> of the month. It is measures the changes in the price paid by consumer for a representative basket of goods and services. The Producer Price Index or PPI report is usually released one or two days before the CPI report, compiled by the Bureau of Labor Statistics. It is measures the average change in process by domestic producers for their output. Announcements relating to the whole economy unemployment Situation also compiled by the Bureau of Labor Statistics and released in the first week after Month-end or on the first Friday of the month. And the report of the Institute for Supply Management (ISM): Manufacturing published monthly. It is assesses the state of US industry by surveying executive at 300 industrial companies. All news releases are made at 8:30 a.m. Eastern Time (ET) corresponds to 3:30 p.m.

Jussi Nikkinen, Mohammed Omran, Petri Sahls Trom, and Janne Äijo, had provided the research of “The Effects of US Macroeconomic News Announcements on Emerging Stock Markets in the Asia-Pacific Region\* from July 1995 to December 2003, and it shows that emerging markets in the Asia-Pacific region are indeed affected by the schedule of US macroeconomics news announcements and two of the four US macroeconomic announcements which are Unemployment Situation and ISM Manufacturing announcements appear to be the most relevant for

emerging markets. And this time, when US has many problems to be concern of just like the Problems in America today include: an aging population and the affects that will have on the job market, healthcare, and social security; balancing between the citizens right to privacy and the government's responsibility to protect us from terrorism; perpetual deficits over the past two decades that have resulted in a national debt of over \$9 trillion today, which is 65% of GDP and expected to reach 350% of GDP by 2050; the increasing income gap between the poor and the wealth; increasing number of those uninsured and under-insured; global warming and our governments lack of preparedness for it; the utter failure of our penal system to rehabilitate criminals; the country's dependence on oil, especially from abroad; the reality that most of our national debt is owed to China, Japan and the middle east; and the devaluation of the dollar compared to other currencies (Answers, 2012)., researcher wants to know, is the report of United States of America still have impact to others countries especially in the Asia-Pacific or not.

### **1. Problem Formulation of the Research Study**

Here the author tries to examine whether the US macroeconomic news announcements affect volatilities of emerging stock markets in the Asia-Pacific region. For this purpose, the behavior of GARCH volatilities of nine major emerging markets (China, India, Indonesia, Malaysia, Pakistan, Philippines, Korea, Taiwan and Thailand) and four developed markets (Australia, Hong Kong, Singapore and Japan) are investigated around four important scheduled US macroeconomic news announcements (Consumer Price Index or CPI, Unemployment Situation, Institute for Supply Management (ISM): Manufacturing and Producer Price Index or PPI).

Based on the description above and explanation on the background, the researcher formulated the following issues:

1. Did the four important US macroeconomic news announcements which are Consumer Price Index or CPI, Unemployment Situation, Institute for Supply Management (ISM): Manufacturing and Producer Price Index or PPI has huge impact for the developed markets (Australia, Hong Kong, Singapore and Japan)?
2. Did the four important US macroeconomic news announcements which are Consumer Price Index or CPI, Unemployment Situation, Institute for Supply Management (ISM): Manufacturing and Producer Price Index or PPI has huge impact for the nine major of emerging markets (China, India, Indonesia, Malaysia, Pakistan, Philippines, Korea, Taiwan and Thailand)?

## **2. Scope of the Research Study**

In order to limit the discussion on the issues and to obtain a clearer direction for the researcher in discussing this problem, so the researcher has set limits on the following issues:

1. This research is focused on four important scheduled US macroeconomic news announcements of Consumer Price Index or CPI, Unemployment Situation, Institute for Supply Management (ISM): Manufacturing, and Producer Price Index (PPI) for the nine major emerging markets (China, India, Indonesia, Malaysia, Pakistan, Philippines, Korea, Taiwan and Thailand) and four developed markets (Australia, Hong Kong, Singapore and Japan).
2. The data that will be used in this research comprises from period January 2000 until December 2011 from the Consumer Price Index or CPI, Unemployment Situation, Institute for Supply Management (ISM): Manufacturing, and Producer Price Index (PPI) for the nine major emerging markets (China, India, Indonesia, Malaysia, Pakistan,

Philippines, Korea, Taiwan and Thailand) and four developed markets (Australia, Hong Kong, Singapore and Japan).

### **3. Research Motivation**

There are several reasons behind this research writing.

1. The researcher want to find out how the US macroeconomic news announcements of Consumer Price Index or CPI, Unemployment Situation, Institute for Supply Management (ISM): Manufacturing, and Producer Price Index (PPI) impact the nine major emerging markets (China, India, Indonesia, Malaysia, Pakistan, Philippines, Korea, Taiwan and Thailand) and four developed markets (Australia, Hong Kong, Singapore and Japan).
2. “The Effects of US Macroeconomic News Announcements on Emerging Stock Markets in the Asia-Pacific Region\*” is a journal from The Asia Pacific Journal of Economics & Business<sup>12.1</sup> (Jun 2008): 3-14,63-64, written by Jussi Nikkinen, Mohammed Omran, Petri Sahls Trom, and Janne Äijo, had provided the research from July 1995 to December 2003, and the researcher wants to continue this research from January 2000 to December 2011. And, for all these reasons, the researcher proposes the title for the thesis “The Effects of US Macroeconomic News Announcements for the nine major emerging markets (China, India, Indonesia, Malaysia, Pakistan, Philippines, Korea, Taiwan and Thailand) and four developed markets (Australia, Hong Kong, Singapore and Japan)”.

#### **4. Benefits of the Research Study**

The benefits of this research study hopefully will be able to:

1. For writer

This research could create a better understanding about The Effects of US Macroeconomic News Announcements for the nine major emerging markets (China, India, Indonesia, Malaysia, Pakistan, Philippines, Korea, Taiwan and Thailand) and four developed markets (Australia, Hong Kong, Singapore and Japan) by the data of Consumer Price Index or CPI, Unemployment Situation, Institute for Supply Management (ISM): Manufacturing and Producer Price Index or PPI.

2. For other researchers

This research can be a reference in order to support subsequent researchers, especially in relation to the study of the effect of US macroeconomic news announcements.

3. For readers

Hope that this research can bring new knowledge and understanding about the US Macroeconomic News Announcements that effect economic in the emerging markets and the developed markets.

#### **5. The Originality of the Writing**

This research is carried out based on the previous research that has been done before by other researchers in other countries with the title: “The Effects of US Macroeconomic News Announcements on Emerging Stock Markets in the Asia-Pacific Region\*” written by Jussi Nikkinen, Mohammed Omran, Petri Sahls Trom, and Janne Äijo, and was published in The Asia Pacific Journal of Economics & Business<sup>12</sup>. 1 (Jun 2008): 3-14,63-64. The differences between this research and the previous research

are from one of the US macroeconomic news where the previous research used data from employment situation while this research used data from unemployment situation and the period of the research also different where the previous research used data from July 1995 to December 2003 and this research continue to used data from January 2000 to December 2011.

The researcher compiled this research study by herself. All the writings, the research data, data analysis and conclusions in this research study was collected, analyzed, and explored by the researcher, except for the written sources which were used as the references in this research study.

## **B. Objective of the Research Study**

The objective of this research is to analyze if the of US Macroeconomic News Announcements which are Consumer Price Index or CPI, Unemployment Situation, Institute for Supply Management (ISM): Manufacturing and Producer Price Index or PPI, affect the nine major emerging markets (China, India, Indonesia, Malaysia, Pakistan, Philippines, Korea, Taiwan and Thailand) and four developed markets (Australia, Hong Kong, Singapore and Japan). According to the previous research from Jussi Nikkinen, Mohammed Omran, Petri Sahls Trom, and Janne Äijo, that had provided the research from July 1995 to December 2003, several countries of emerging markets are affected by the US macroeconomic news releases while the results from the developed Asian countries, however, are somewhat surprising given the earlier findings from the US stock markets. One possible explanation for these differences is that the emerging markets are more dependent on the US economy than the developed markets, and it is clearly indicate that the Asia-Pacific emerging stock markets are closely integrated with respect to scheduled US macroeconomic news announcements.

### **C. Organization of the Writing**

The writing is divided into five chapters, which are:

#### **Chapter I: Introduction**

This chapter divided into five parts which are background of the research study including of problem formulation of the research study, scope of the research study, research motivation, benefits of the research study, and the originality of the writing.

#### **Chapter II: Theoretical Background**

This chapter describes the theoretical background relevant to this research. It is divided into three parts, which are the review of the literature, related studies and the hypothesis. The review of the literature discusses the theory of Consumer Price Index or CPI, Unemployment Situation, Institute for Supply Management (ISM): Manufacturing and Producer Price Index or PPI and the review on the related studies provide some findings from research studies on the same area of concern by the other researchers. The last part will be the hypothesis of this research.

#### **Chapter III: Methodology**

This chapter describes the research design and it is divided into six parts which are Population and Sample, Data Collection Technique, Data Source, Variable Identifications, Analysis Tool, Method of Data Analysis, and Hypothesis Testing.

#### **Chapter IV: Data Analysis**

This chapter describes data from January 2004 to December 2011 and calculation using GARCH method from Consumer Price Index or CPI, Unemployment Situation, Institute for Supply Management (ISM): Manufacturing, and Producer Price Index (PPI).



## Chapter V: Conclusions and Recommendation

This chapter describes the results of the calculation and all the good analysis and recommendation for facing the case of this.

