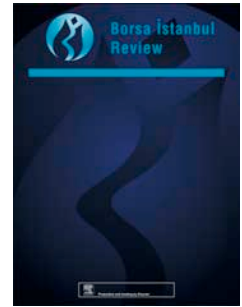


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Interdependence between Islamic capital market and money market: Evidence from Indonesia

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Abstract

This study investigate VAR Toda-Yamamoto causality test between macroeconomic variables and Islamic financial market. The purpose of this study is to analyze the information content of Islamic capital market and money market return with respect to macroeconomic and global factors. Using bivariate method, we found that Islamic capital market index (JII) has more content information than Islamic money market index (SBIS). The exchange rate and VIX index significantly affected JII. Otherwise, only VIX index have been found to significantly affect SBIS. Using multivariate method, JII has more content information (exchange rate, world oil price, China's economic growth, and VIX index) than SBIS (SBI rate, inflation rate, and VIX index). Contradiction in these findings indicates the presence of (i) interaction between the macroeconomic variables, (ii) interaction between the financial market and the macroeconomic variables, and (iii) interaction between the Islamic capital market and money market. Further, by considering these interactions, JII more suitable for use as a barometer of fiscal policies in Indonesia, while SBIS suitable for monetary policies.

Keywords: Islamic finance, capital market, money market, monetary, causality

JEL codes: E44, E63, F36, G15

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