

**ANALYZING THE IMPACTS OF HEDGING ON COST OF
DEBT: INDONESIA'S PUBLIC LISTED COMPANIES 2007-2013
STUDY CASE**

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**MASTER DEGREE
In
BUSINESS ADMINISTRATION
FACULTY OF BUSINESS ADMINISTRATION & HUMANITIES**



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**August 2015
Revision after Thesis Defense on 15 August 2015**

STATEMENT BY THE AUTHOR

Hereby I declare that this master thesis submitted is a work of my own and to the best of my knowledge, it contains no material previously published or written by another person, no material which substantial extent has been accepted for the obtain of other degree or diploma in other educational institution, except the acknowledgement is made in the thesis.

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ABSTRACT

ANALYZING THE IMPACTS OF HEDGING ON COST OF DEBT: INDONESIA'S PUBLIC LISTED COMPANIES 2007-2013 STUDY CASE

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Nowadays, the use of hedging strategy as part of its risk management strategy is becoming essential, particularly in Indonesia. This study investigate further the corporate finance theories which suggest that firms benefit from hedging due to the reduction of bankruptcy risk or financial distress and the mitigation of agency problem. It studies the impact of hedging strategy to the cost of debt in a sample of 183 Indonesian companies (1281 year observations) from 2007 to 2013. Further, this study also examines the sources of hedging benefit in reducing the cost of debt through the reduction of financial distress and agency costs.

Panel two-stage-least-square (2SLS) and diagnostic tests are conducted to ensure the validity of the model. It is proven that, throughout the whole process, there is significant negative impact of hedging to cost of debt. Empirical result shows that hedging firms is paying 141 basis point lower cost of debt than the non-hedge firms. Additionally, it is proven that hedging is more beneficial to firm with higher leverage, since the reduction of the financial distress is also greater. However, this study also gives strong evidence that hedging reduces the cost of debt by mitigating the agency problem.

Keywords: Corporate Finance, Cost of debt, Hedging, Risk Management, Agency Cost, Information Asymmetry, 2SLS.

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DEDICATION

I dedicate this thesis to my parents, family, and mentors. Without their patience, understanding, support and most of all love, the completion of this work would not have been possible. Also to my dear Alfred, who have served as my inspiration.



ACKNOWLEDGEMENT

First and foremost, praise and thanks goes to Lord Jesus Christ for many blessing and guidance upon me. The Lord has put His word to my heart so that I can finish this thesis with confidence through Him “Trust in the Lord with all your heart and lean not on your own understanding; in all your ways submit to him, and he will make your paths straight”- Proverbs 3:5-6.

I wish to say thank you for those who are already contributed in the completion of this thesis, they are:

Firstly, I want to say thank you for my family, papa and mama also Robby and Angel. They always encouraged me and prayed for me throughout the time of this research. Also to Alfred who always been there for me for this past years, thank you for giving all your time and energy to help and support me and for being loyal companion for me throughout the process. You are my mentor, my inspiration and my motivation since we're met, I thank God I found you.

Secondly, I would like to say thank you for my advisor, Dr.rer.pol. Ida Juda, MBA, and my co advisor, Dr. rer.nat Linus Pasasa. Bu Ida, thanks for your support, advices, guidance, valuable comments and suggestions that benefited much in the completion of this thesis. Pak Linus, thanks for your time, guidance, encouragement, and research knowledge sharing.

Thirdly, I would like to say thank you for Batch 23. My dear Kecap-ers Vanessa, Keane, ko Lexy, and Samuel, Also, Pak Andry, Pak Dhany, Pak Fredy, Gilland, Pak Hendy, Pak Imran, Humberto, Reni, Pak Miptah, Pak Andy, Sonia, and Firza. It is an honour to be part of this batch. We've been through a lot together this past two years, many happy and unexpected moments we faced together, it's finally done guys!!!

To all professors, lecturers and academic services of MBA program in SGU for sharing their knowledge and guidance, without them the completion of this thesis would not have been possible.

I also would like to say gratitude to Dr. Kim Sung Suk, B.A., M. Hum., M.Sc, Christian Silangen M.Ba, and Budi Hartono, SE, MM, Ak., CA Thanks for your contribution and knowledge sharing. Thanks you for giving me a lot of valuable suggestions and inputs.

Lastly, my dear best friends, Nanda, Ting-ting, Candy, Vanessa, Ntep, Alfred, Alex, David, Danny, Rainer, Sam, Rio, Putri, Ryan, Verina, Ci Sheila, Ci Oline, and Pinky. Also my UPH students that I can't mention one by one, you guys always cheer me up and make me believe that this completion is possible.



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