

**A CORRELATIONAL STUDY BETWEEN
SUBPRIME MORTGAGE CRISIS AND
INTERNATIONAL FINANCIAL MARKET PERFORMANCE**

By
Agnes Valentine

A Bachelor's Thesis
Submitted to the Faculty of
BUSINESS ADMINISTRATION

In partial fulfillment of the
Requirements for the Degree of

BACHELOR OF BUSINESS ADMINISTRATION

SWISS GERMAN UNIVERSITY

SWISS GERMAN UNIVERSITY

Campus German Centre

Bumi Serpong Damai – 15321

Island of Java, Indonesia

www.sgu.ac.id

July 2008

Revision after the Thesis Defense on 2 August 2008

STATEMENT BY THE AUTHOR

I hereby declare that this submission is my own work and to the best of my knowledge, it contains no material previously published or written by another person, not material which to a substantial extent has been accepted for the award of any other degree or diploma at any educational institution, except where due acknowledgement is made in the thesis.

Agnes Valentine

Date

Approved by:

Ir. Yosman Bustaman MBA

Date

Chairman of the Examination Steering Committee

Date

Agnes Valentine

ABSTRACT

A CORRELATIONAL STUDY BETWEEN SUBPRIME MORTGAGE CRISIS AND INTERNATIONAL FINANCIAL MARKET PERFORMANCE

By

Agnes Valentine

SWISS GERMAN UNIVERSITY

Bumi Serpong Damai

Ir. Yosman Bustaman MBA, Thesis Advisor

Subprime Mortgage Crisis is a global credit crunch which has been sending panic waves to the world. There have been many market theories on how this crisis will influence the international financial performance, both the performance of developed and developing countries. Through this research, the validity of the existing market theories will be investigated. The research will elaborate how the Subprime Crisis relates to and influences the international financial market performance.

To fulfill its purpose, the daily movement of countries' major stock indices will be compared to the movement of the U.S. Asset Backed Securities index. Additional analysis on other influencing factors, such as countries' GDP growth, inflation rate, and financial market activity level will also be carried out.

Throughout the research, there have been several interesting findings. The correlation between the Subprime Crisis and the two country classifications has been proven to be divergent. These findings support the market theories on how the crisis influences the two different parts of the world.

DEDICATION

I dedicate this thesis to my beloved parents:

Tarminggus Yonatan

and

Oey Djuita Winda



ACKNOWLEDGMENTS

The author wishes to firstly express her gratitude to the Lord for giving the author the strength, the spirit, and the health in completing the thesis on schedule.

Also, the author is extremely grateful to Ir. Yosman Bustaman MBA, the advisor of this research, for providing supportive criticism and advices on the research methodology, statistical analysis, and also language editing. His considerate feedback has added the value of the research and improved the quality of the research significantly.

Many thanks to the several people who have helped in the early development of this research. The valued comments and discussion of Nurdayadi IR. MSc., Felix Mogi, and Mischa Germelmann on the very early phase of the research are also taken into account. Their simple comments have contributed considerably for the preliminary study of the research. Mr. Junius Tirok has given the author the insight on how to conduct a good research properly since the very beginning. Also, his high expectation on the author and the the research motivated the author in working harder to achieve a better result. The help of all these individuals is very much appreciated.

The authour also would like to express her heartfelt thanks to the author's family: Tarminggus Yonatan, Oey Djuita Winda, Christine Dorothy, Caroline Erika, and Stephanie Dova, for all of the love and support given during the research. A special note of thanksgiving and gratitude for Michael Mogi, the author's special person, for his tremendous love, support, patience, companionship, and input during the research. These people are the souls that had continuously inspired the author to work on the thesis diligently until completion.

The author's gratitude also go to SGU Thesis Steering Committee, especially Ms. Mina Arsita, for being supportful, perceptive, and quick in organizing administrative issues associated to the thesis.

Many thanks once again to all of these individuals and may all of them be blessed.

Agnes Valentine

TABLE OF CONTENTS

STATEMENT BY THE AUTHOR.....	2
ABSTRACT.....	3
DEDICATION.....	4
ACKNOWLEDGMENTS.....	5
CHAPTER 1 – INTRODUCTION.....	9
1.1 Background.....	9
1.2 Problem Identification.....	9
1.3 Objective of the Study.....	10
1.4 Significance and Purpose of the Study.....	10
1.5 Scope and Limitation.....	11
CHAPTER 2 – LITERATURE REVIEW.....	12
2.1 Subprime Mortgage.....	12
2.2 The Mortgage Market.....	14
2.2.1 Primary Mortgage Market.....	15
2.2.2 Secondary Mortgage Market.....	16
2.3 The Subprime Mortgage Crisis.....	22
2.4 International Impact (General Market Theory).....	27
2.4.1 Developed Countries.....	27
2.4.2 Developing Countries.....	29
CHAPTER 3 – METHODOLOGY.....	35
3.1 Research Questions and Hypothesis.....	35
3.2 Data Collection Method.....	36
3.3 Research Design.....	36
3.3.1 Type of investigations.....	36
3.3.2 Sampling Method.....	36
3.3.3 Unit of Analysis.....	37
3.3.4 Time Horizon.....	37
3.3.5 Study instrument.....	38
3.4 Research Process.....	38

CHAPTER 4 – RESULT & DISCUSSION.....	41
4.1 Preliminary Discussion: Countries Quick Profile.....	41
4.1.1 Financial Market Activity Overview	41
4.1.2 Domestic Economy Overview	44
4.2 Introduction to Statistical Analysis Indicators.....	47
4.3 Statistical Analysis.....	49
4.3.1 Tier-1 Hypothesis Analysis: Per-country testing.....	49
4.3.2 Tier-2 Hypothesis Analysis: Hypothesis testing.....	54
4.3.3 Research Question Analysis	62
CHAPTER 5 – CONCLUSION AND RECOMMENDATION	67
5.1 Conclusion	67
5.2 Recommendation	70
5.2.1 Field Recommendation	70
5.2.2 Research Recommendation.....	71
GLOSSARY	72
REFERENCE.....	75
APPENDIX A: IMF COUNTRY CLASSIFICATION.....	78
APPENDIX B: PER-COUNTRY REGRESSION RESULT	80

SWISS GERMAN UNIVERSITY