

## ABSTRACT

The monetary crisis had attacked Indonesia since the mid of 1997. Sharp increase of US dollar exchange rate and the due of international loan hurtled Indonesian economy and business painfully. It is very rational that this national problem influence the performance of company listed in Jakarta Stock Exchange (JSX). Increasing the price, in rupiah, of imported material and other goods and services from other countries that based on dollar value distorted the ability of companies to maintain their financial performance.

The aims of this study were to analyze the influence of financial leverage and financial policies on systematic risk, hedging decision and firm's value of manufacturing industry of go public companies in Indonesia. Hypotheses of this research were predicted based on trade off risk and return theory, Capital Asset Pricing Model (CAPM) theory and Modigliani and Miller proposition about financial engineering.

Research population was manufacturing industry companies that have been registered in Jakarta Stock Exchange since 1997 and were still active in 2001, and had foreign transactions. Populations were 114 companies. Data analyzing technique to answer the research questions and to examine the research hypotheses using structural equation model (SEM) that supported by analysis of moment structure (AMOS) application version 4.01.

Analysis result, financial leverage, systematic risk and financial policies to value of the firm were insignificant. Financial leverage to systematic risk and to hedging decision was insignificant too. The empirical evidence found that highly systematic risk tends to have higher hedging decision and increase value of the firm. This result supported that systematic risk have to hedge and will add value of the firm. The research found that highly financial policies tend to have higher systematic risk and smaller hedging decision.

The result of this study supported trade-off risk and return theory but also did not support capital asset pricing model theory and Modigliani and Miller proposition about hedging decision.

**Key words:** *financial leverage, financial policies, systematic risk, hedging decision, firm's value*