

CHAPTER I

INTRODUCTION

A. Background

Economy is one important thing for the survival of a country. One important factor for the progress of a country is a capital market. Capital market actually not so different with the others market in general. According to (Darmadji and Fakhruddin, 2011), capital market means market for various long-term financial instrument that can be bought and sold, either in the form of debt and owner's equity.

By considering the capital market, financial activities are expected to be profitable because the market is an alternative needed for the company, so that it can be operated on a big scale, and then it will increase the company's income and prosperity of the wider community.

Capital markets as economic instruments, can not be separated from macroeconomic and microeconomic factors, both from the economic environment and non-economic environment. According to (Suryawijaya et al., 1998), the influence of changes in microeconomics and changes in macroeconomics environment that occur will affect the fluctuations in trade prices and volumes in the capital market.

Efficient Market Hypothesis based on (Fama, 1970) is provides an understanding of an efficient market concept, it is meaning that the current

stock price reflects all information available. This thing means information from the past, present, and added by information from the company itself (inside information).

But in the other hands, from various existing researches, a concept emerged which deviated from the efficient market concept. Deviations from the efficient market concept are often referred to as efficient market anomalies, this is because the causes are difficult to explain correctly.

According to (Gumanti, 2011), anomaly is an event that can be exploited to produce abnormal return or profits. Divided the capital market anomalies into two types, namely fundamental anomalies and seasonal anomalies (W.T. Ziemba and C.R. Hensel, 1994). Types of seasonal anomalies include January effects, monthly effects, turn of the month effects, time of month effects, holiday effects, Monday effects, and day of the week effect. Whereas those included in fundamental anomalies include price to earnings effects, price to book effects, market capitalization effects, dividend yield effects, earnings trends and surprises and mean reversion effects.

In this research the author will use event study for the tool for the research because this research is to know the effect from the events towards the trading activity. According to (Jogiyanto, 2008) event study is a study that studies the market reaction to an event whose information is published as an

announcement. Event that will use in this research is an election day in Indonesia.

Every five years the citizen uses their right for the election day to distribute their aspiration and choose what they want to choose. Because of the election day in Indonesia, it will give effect for the stock price.

The election day according to *Undang-Undang No. 8 Year 2012 Pasal 1 Ayat (1)* said that, means of the implementing people's sovereignty in *Negara Kesatuan Republik Indonesia* based on *Pancasila* and *Undang-Undang Dasar Negara Republik Indonesia 1945*. Now, the *UU* on elections has undergone amendments, namely the *UU 2017*. The election day usually appears when the country will do an election day.

Bahana TCW Investment Management considers that the impact of elections on the 2019 capital market will not be as significant as the previous elections since the reform era. Director of Investment Strategy at PT Bahana TCW Investment Management (BTIM) Budi Hikmat said that the Indonesian democratic party have been held with splendor in the last week. Meanwhile, the enthusiasm of market participants in this election year has been marked by an increase in foreign capital flows, both in the capital market and bonds since the beginning of the year (year to date / ytd) until the end of last week.

However, the impact of elections on the capital market in 2019 will not be as strong as the previous elections since the reform era. Budi Hikmat revealed that the end of the super commodity boom era that triggered the current account deficit over the past 5 years was a fundamental differentiating factor. As for 2019, the capital market performance of the country is relatively limited. There is no visible post-election euphoria after the wait and see action that occurred several weeks before the election. JCI's performance was relatively consolidated throughout the beginning of this year.

For this year, the Indonesian stock market is expected to recover along with other emerging markets. Because the dovish sentiment from the increase in US interest rates and the anticipated impact of the trade war are expected to relieve emerging markets. Even though the recovery for Indonesia is relatively lower than other developing countries, the country's stock market is expected to continue to be able to enjoy the benefits of turning investors into risky assets. (www.market.bisnis.com, 2019).

In this previous research that related with election day, such as: Teddy Chandra (2015), in his research by title “Impacts of Indonesia’s 2014 Presidential Election towards Stock Price Indonesia Stock Exchange” in his research can find there are no differences of the abnormal return and trading volume activity before and after the election day. Another previous research

from Nunung Nurhaeni, ST (2009), in her research by title “*Dampak Pemilihan Umum Legislatif Indonesia Tahun 2009 Terhadap Abnormal Return dan Aktivitas Volume Perdagangan Saham di BEI*” in her research can find the significant differences of the average abnormal return and trading volume activity before and after the election day. According to Rif’at Sauqi Baiqumi (2015), in his research by title “*Pengaruh Pengumuman Hasil Pemilihan Umum Presiden 2014 Terhadap Abnormal Return dan Aktivitas Volume Perdagangan Saham*” in his research can find no significant differences in abnormal return before and after the election day, but there are significant differences in trading volume activity before and after the election day.

Based on the description of the phenomena and the research gap, the author interest with a study entitle “*Capital Market Reaction Before and After the Election in 2014 and 2019, Case Study on LQ45 Index In Indonesia Stock Exchange Market In 2014 and 2019*”. This research uses abnormal return and trading volume activity as a dependent variable.

B. Research Problem

Based on the background above, the problem that the author can be defined in this research are:

1. Does the election day give significant differences of average abnormal return before and after the election day on LQ45 index in Indonesia Stock Exchange in 2014 and 2019?

2. Does the election day give significant differences of average trading volume activity before and after the election day on index LQ45 in Indonesia Stock Exchange in 2014 and 2019?

C. Research Purpose

Based on the background and research problem, the purpose from this research is to test there is reaction of capital market or not towards the election day of Indonesia in 2014 and 2019 by using event study. Market reaction indicated by the existence of abnormal return and trading volume activity from the related securities.

D. Research Benefits

1. Theoretically

This research is expected to function as a reference too provide convenience for future researchers. Other than that, this research could expand the researcher knowledge about efficiency market hypothesis and market anomalies, especially in Election Day Effect.

2. Practically

The results of this study are expected to be an insight into the impact of the election day on price changes stock, so that it can be a consideration in determining investor decisions in the future.