# CHAPTER I

# INTRODUCTION

## 1.1 Background of the Research

The capital market cannot be separated from several events around it and also the factors that influence it. Factors that affect the capital market include economic factors. Economic factors include inflation, deposit interest rates, dividend distribution, and financial difficulties. Meanwhile, non-economic actors include political conditions and state security (Chandra, Anastasia, & Memarista, 2014). Investors collect publicly available information as well as personal information as a basis for conducting investment activities. When investors will invest their shares, they will see some of these factors as a material consideration. If the stability of these various lines is maintained, investors will feel safe in investing their shares, on the contrary when there is instability, investors will feel hesitant to invest their shares. Investors will consider matters relating to their invested funds, because their purpose of investing is to obtain a large rate of return.

According to Martalena & Malinda (2011) the speed of stock price reaction to an event describes the level of efficiency of a market. The sooner new information is reflected in the price of a security, the more efficient the capital market will be. In the concept of the Efficient Market Hypothesis (EMH), a market is said to be efficient (in the form of semi-strong) if the stock price quickly fully describes all the new and relevant information available, the information will enter the capital market and then form the price of securities, the market reaction can be seen from the trading volume reaction, price reaction and profit rate reaction (stock return). The reaction caused is that the stock price increases when the information contained in it has information (good news) while the stock price decreases when the information contained in the event is not good (bad news).

At the end of 2019, there was world chaos due to the outbreak of the COVID-19 virus in China, which spread very quickly. The COVID-19 pandemic is the event of the spread of the corona virus disease (coronavirus disease 2019, abbreviation of COVID-19) throughout the world. This disease is caused by a new type of corona virus named SARS-CoV-2 (Alexander, 2020). The COVID-19 outbreak was first detected in Wuhan City, Hubei Province, China on December 1, 2019, and was designated a pandemic by the World Health Organization (WHO) on March 11, 2020.

The COVID-19 pandemic that has hit the world today has become one of the emergency events related to the non-economic environment of the capital market which has had a tremendous impact on global stock prices and in Indonesia. Stock markets around the world recorded unprecedented and far greater declines compared to previous outbreaks of infectious diseases (Bakers et al., 2020; Lyócsa, et. al., 2020). On 24 – 28 February 2020 it was reported that there was the largest one-week decline since the 2008 financial crisis in stock markets in various parts of the world (Štifanić et. al., 2020)

Even before the pandemic, the Indonesian economy was still quite good as seen from the Composite Stock Price Index in early January which had touched the figure of 6300, this is a good achievement for Indonesia. Not only that, the prospect of the national economy is also stable, where economic growth is at the level of five to five and a half percent. Then the regulations made by the government, the condition of the rupiah which tends to be more stable and our good foreign exchange reserves are an attraction for investors to invest in Indonesia.

Concerns about COVID-19 began to be felt in Indonesia in early March 2020, when two Indonesian citizens were tested positive for COVID-19 after making physical contact with Japanese foreigners. The Indonesian government through the Ministry of Health (Kemenkes) urges the Indonesian people to avoid crowds considering the difficult character of the virus. Since the announcement of confirmed cases of COVID19 in early March 2020, various indices on the Indonesia Stock Exchange (IDX) have also continued to decline and reached their lowest values at the end of March 2020 (Purnaningrum and Ariyanti, 2020).

Indices in various parts of the world experienced a fairly large decline which in the world reference index also caused the Indonesian Capital Market to experience a fairly deep decline. On the other hand, the level of investor confidence is also influenced by the fluctuations in the Composite Stock Price Index (JCI), it can be seen that there is a change in prices of unstable economic conditions caused by the COVID-19 pandemic after the first announcement of COVID-19 by the government on March 2, 2020 which is still in the negative zone, thus affecting the demand and supply of shares by domestic and foreign investors. For example, the United States (DJI) index fell by -26.8% to 18591 level, China (SSEC) fell by -16.8% to 2702 level, Singapore (STI) fell by -25.83% to 2233 level and Indonesia (JCI) decreased by -26.83% to 3989. The decline in the Composite Stock Price Index certainly cannot be separated from investor sentiment which makes investors prefer to withdraw their funds from the capital market so that it certainly makes stock prices decline. Investors see that the pandemic is really affecting the economy activity and worry about future revenue which is represented by stock price and normal investors tend to sell their shares (Liu et al. 2020). And based on data from Bank Indonesia, 9 index sectors listed on IDX in 2020 received the impact of the lower JCI level. It is said that almost all industrial sectors receive the impact of the Corona virus pandemic. The Trade, Industry, Mining, Transportation and Construction, Transportation and Communication sectors have decreased since the confirmation of the corona virus entering Indonesia. On the other hand, the agriculture sector increased from -2.03 to 0.40 percent, this was due to an increase in the export value before the pandemic began to be confirmed in Indonesia.

According to research conducted by Al-Awadhi et al (2020), market returns interact negatively with the COVID-19 pandemic, especially stock returns that interact negatively with case development and daily growth in deaths due to COVID-19. In line with that, research conducted by Ashraf (2020) states that the response from stock market returns to the COVID-19 death rate is weak and reacts strongly with negative returns to the increase in COVID-19 cases.

Aquinaldo (2018) said that the market reaction due to changes in the price of a security can be measured using abnormal returns. Abnormal returns occur due to information or events that change the value of the company as well as investor reactions in the form of increases or decreases in market prices. If COVID-19 gives positive results for investors, a return that is greater than the expected return will be generated. On the other hand, if COVID-19 gives negative results for investors, a smaller return will be generated than the expected return. Beside using abnormal returns, market reactions can also be observed by looking at trading volume activity. Investors can monitor trading volume information associated with stock prices. If COVID-19 gives positive results for investors, the volume of stock trading will increase. Market conditions will be sluggish if the increase in stock trading volume occurs when prices decline. However, the market will be in an optimistic condition if the stock trading volume occurs when the price increases.

To see how much the COVID-19 pandemic has affected the reaction of the capital market in Indonesia, researchers are interested in conducting further research. This study was conducted by looking at how the effect of the COVID-19 pandemic on the abnormal return and trading volume activity before and during the pandemic. This object for the research is 9 index sectors that listed on Indonesia Stock Exchange. The reason the researcher chose the 9 index sectors that listed on IDX in 2020 is to find out which sectors among the sectors listed on are significant affected by the COVID-19 pandemic.

This study uses the event study method, with the period starting from February 17th, 2020 to March 1st, 2020. And after the first case of COVID-19 in Indonesia on March 3rd 2020 to March 16th, 2020, which occurs from 10 working days before COVID-19 enters Indonesia and 10 working days after COVID-19 enters Indonesia. This period is rightly chosen because not too long and to avoids the influence of other events that will occur next.

## 1.2 Problem Statement

Referring to the background above, the problems to be examined in this study can be formulated as follows:

1. Are there any significant differences in abnormal returns before and during the COVID-19 outbreak in 9 index sectors listed on the IDX in 2020?
2. Are there any significant differences in trading volume activity before and during the COVID-19 outbreak in 9 index sectors listed on the IDX in 2020?

## 1.3 Objective of the Research

Based on the formulation of the problem above, it can be concluded that the objectives of this study are as follows:

1. Knowing the differences in abnormal return before and during the COVID-19 outbreak in 9 index sectors listed on the IDX in 2020.
2. Knowing the differences in trading volume activity before and during the COVID-19 outbreak in 9 index sectors listed on the IDX in 2020.

## 1.4 Contributions of the Research

This research is expected to provide benefits, including the following:

1. For Researcher

   This research is useful as a forum to apply the knowledge that has been learned and to increase understanding of the capital market, especially in the field of abnormal return and trading volume activity before and during the COVID-19 pandemic.

2. For Investors

   This research is expected to be useful as a consideration for investors and potential investors in deciding to invest.

3. For further researchers

   This research can be used as reference material for similar research.

## 1.5 Scope of the Research

Limiting a problem is used to avoid irregularities or widening the subject matter so that the research is more focused and makes it easier to discuss so that the research objectives will be achieved. The scope of the problem in this study is to discuss the COVID-19 events that affect the abnormal return and trading volume activity in all of sectors listed on IDX before and during the COVID-19 pandemic in Indonesia.

## 1.6 The Writing System

**CHAPTER I INTRODUCTION**

This chapter contains the research background, problem formulation, research objectives, research benefits, research scope, as well as writing systematics.

**CHAPTER II: LITERATURE REVIEW**

This chapter describes all the theories related to this research. Also, in this chapter will be given a review of previous research, the development of hypotheses and a conceptual framework that serves as a guide in processing the data.

**CHAPTER III: RESEARCH METHODS**

This chapter describes the research design, population and sample, data collection techniques, variables and measurements, and data analysis methods used to test hypotheses.

**CHAPTER IV: RESULTS AND DISCUSSION**

This chapter describes the results extracted from the research questionnaire, descriptions of respondents, and methods of data analysis to test hypotheses.

**CHAPTER V: CONCLUSION**

This chapter contains the conclusions of a research that has been carried out, its implications for the research, research limitations and suggestions.