

CHAPTER I

INTRODUCTION

1.1 Research Background

The change in stock prices on the capital market has always been an interesting object to be discussed by every related parties. These parties could be consist of regulators, creditors, listed companies, investors and others. Particularly for investors, the information of the change in stock prices will help them to make good investment decisions. Sari, Fathoni, & Haryetti (2019) argued that for investors, the change of stock price is one of the indicators that could determine investment decisions to obtain returns since it describes the company value. In addition, Rosid, Bahiroh, & Vedrikho (2022) emphasized that for investors, the good value of the company could be reflected by the increase in stock prices, and vice versa. Therefore, Tandelilin (2017) stated that the increase and decrease in stock prices are known as stock price fluctuations.

Darmadji and Fakhruddin (2012) explained that stock price fluctuations are the up and down of stock prices that depends on the demand and supply between investors and issuers. Brigham & Houston (2016) also stated that stock price fluctuations are the increase and decrease in stock prices that match the investor interest on company stock price in investing their capital. Given the importance of information about stock price fluctuations, it is necessary to know the factors that influence stock price fluctuations.

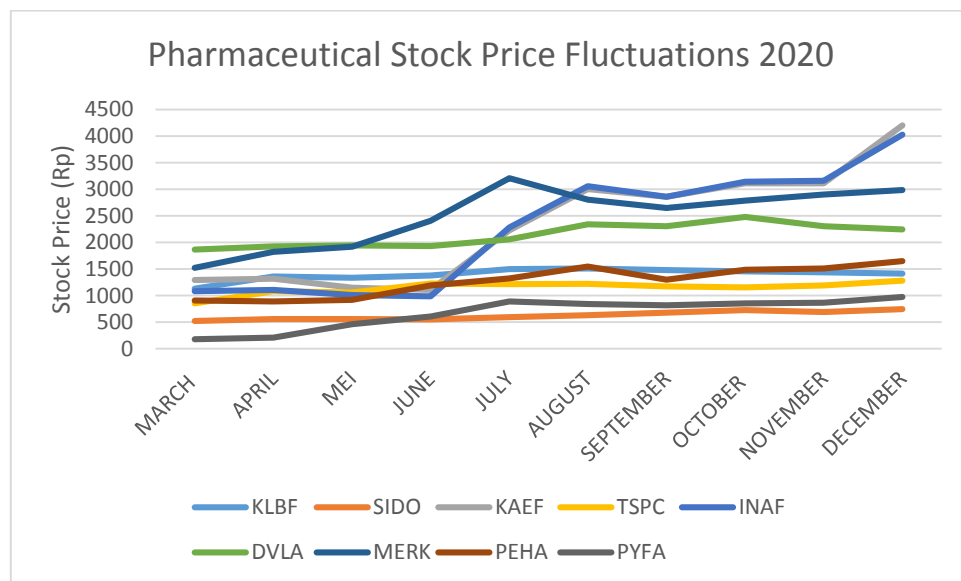
According to Savitri (2015) the stock price fluctuations could be influenced by macroeconomics factors coming from the external environment of the company which not only could be from economic events but also non-economic events. The economic events could include the inflation rate, changes in interest rates, foreign exchange reserves, international economic conditions, and more. While, non-economic events are categorized as something that could disrupt the stability of the people in a country such as natural disasters, military and non-military hazards, and the spread of pestilence such as pandemic event related to COVID-19 shock that occurs all over the world (Albulescu, 2021).

The emergence of the COVID-19 case in Wuhan, China, became the beginning of a global pandemic. The COVID-19 pandemic is not only hit various living systems but also economies around the world including a turbulence on the stock prices (Nicolaidis, 2020). This pandemic has triggered stock price fluctuations on stock exchanges around the world and has spread to Indonesia (Trisnowati & Muditomo, 2021).

In Indonesia, fluctuations in stock prices that were disrupted during COVID-19 led to a decline in the Composite Stock Price Index (JCI) which eventually fell into a free fall. On March 12, when WHO declared a pandemic, the JCI fell 4.2 percent which was a level not seen for nearly four years, and stock trading was suspended for the first time since 2008 (financial crisis in the US) due to the COVID-19 pandemic (IDX, 2020). The declining JCI on the Indonesia Stock Exchange illustrates the highly sensitive stock prices of all sectors in response to this information. However, among all sectors affected,

there is one of the sectors that seems capable of surviving during the Pandemic, which is the pharmaceutical industry (He, Sun & Zhang, 2020). The following are the fluctuations in the pharmaceutical sector's stock prices throughout 2020 which are described below.

Figure 1.1 The Stock Price Fluctuation of Pharmaceutical Sector (Rupiah)



Source: www.finance.yahoo.com (processed data, 2022)

From the data, it could be seen that the graph for fluctuation of pharmaceutical stock prices during the shock was quite stable. In addition, there are also some steady increased on stock prices since investors seems to have confidence in investing their stocks in this industry. It is understandable, because everyone is competing to maintain their health by consuming the various medical related products manufactured by pharmaceutical industries. The high demand for medical related products from this industries such as medicines, vitamins, hand sanitizers, masks, and more cause sales increase, thus their performance is also getting better (Al-Awadhi et al., 2020). For this reason,

the pandemic situation has a potential to give positive signal to investors since this sector has a role in supporting primary needs during the handling of this pandemic which affect their stock price fluctuations (Güven et al., 2022). According to Wahyono, Nugroho, & Imron (2019) some of the most crucial factors affecting stock price fluctuations during Covid-19 are world crude oil price, exchange rate and according to Mutohharo & Nurhayati (2021) namely Dow Jones index as economic factors. Additionally, according to Chen & Chang (2021) there is also confirmed cases of COVID-19 as non-economic factor that could affect stock price fluctuations.

First, the world crude oil price has an important role as one of the main resources in carrying out the production process in various global and domestic sectors. Unfortunately, during COVID-19 shock, the spread of the virus from this pandemic forced the implementation of lockdown policies by several countries, resulting in restrictions on economic and public activities. The existence of travel restrictions between regions and countries, had an impact on a drastic decline in demand for crude oil (Hongsakulvasu & Liamukda, 2020). Therefore, this commodity are feeling the effects of the Covid-19 pandemic and worsened by the trade of the crude oil war between Russia and Saudi Arabia that caused the world oil price to fall by 20% since the beginning of 2020, the lowest in the history of oil trading (Albulescu, 2020). Meanwhile, around 90% of the raw materials needed by Pharmaceutical industries in Indonesia are imported which is linked to oil prices (Wahyono, Nugroho, & Imron, 2019). Thus, this condition will affect the fluctuations of the Pharmaceutical stock

price. In previous finding, world crude oil prices during the Covid-19 pandemic had a significant negative effect on stock prices, but in the long term there was a change in influence to a significant positive (Rabhi, 2020).

Second, the exchange rate could also affect stock price fluctuations during the COVID-19 Shock. Exchange rate is a tool in doing international transactions. However, during pandemic the value of exchange rate weaken when the government in each country required large funding in handling the COVID-19 pandemic causing an increase in state debt and foreign loans (Samosir et al., 2022). The OECD (2020) explained that the majority of foreign debt needed uses the base currency of the US Dollar, then in developing countries with large debts, it led to the weakening of the domestic currency exchange rate, then could reduce investor confidence in the country's economic stability influenced investors to withdraw capital. This condition could give negative sentiment, so it will affect the stock price fluctuations. The relationship between exchange rates and stock price fluctuations could be seen from research conducted by Kewal (2012) that the exchange rate had a positive relationship in affecting stock price fluctuations. This is different from the research conducted by Samosir et al. (2022) which stated that the exchange rate had a negative effect on stock price fluctuations.

Moreover, fluctuations in pharmaceutical stock prices could also be influenced by Dow Jones index. According to Aryasta & Artini (2019) the Dow Jones index or known as Dow Jones Industrial Average index (DJIA) of the USA stock market is the most famous and most followed market indicator in

the world. However, Lesmana (2022) stated that the Dow Jones index decreased due to COVID-19 shock and turmoil in the world oil market. Meanwhile, in the study by Kamaludin, Sundarasen & Ibrahim (2021) described that the performance of the stock market in Indonesia tends to follow the performance of the global stock exchange, especially the Dow Jones index. Since the beginning of the COVID-19 entry into Indonesia, coupled with the war in world crude oil prices, then weakening on exchange rate, followed by the declining in the Dow Jones index, it will affect the stock price fluctuations. In previous finding by Beureukat & Andriani (2021) showed that Dow Jones index during the COVID-19 pandemic had a significant positive effect on stock prices.

Apart from those, there is also the non-economic factor related to COVID-19 shock that could potentially influence the stock price fluctuations. According to Guven et al. (2022) stock price could be influenced by confirmed cases and death cases of COVID-19. They found that the daily confirmed cases and death cases of COVID-19 caused an unprecedented decline in stock price fluctuations so that it has a negative impact on stock prices. In Indonesia, COVID-19 had infected 743,000 people with a death rate of 22 thousand people by the end of 2020 (WHO, 2020). Thus in this study, the confirmed cases of COVID-19 will be used as non-economic factor influencing pharmaceutical stock price due to the high number confirmed cases during the COVID-19 shock in Indonesia.

Unfortunately, the previous studies related to the impact of the COVID-19 Pandemic on stock price especially in the pharmaceutical sector are still limited. Mostly the previous researchers only used comparative studies by

looking at the differences of stock price fluctuations at first announcement without examining factors that could affect them during the event (Suryatimur & Khabibah, 2021) (Welley, Oroh, & Walangitan, 2021) (Harianja, & Siahaan, 2022). One of the prior studies only used economic factors, such as the finding of Indrawati (2020) which elaborated the exchange rate and inflation on stock prices of the pharmaceutical industry. However it only uses two aspects of economic factors from macroeconomic variables to examine their results. While, no one found has yet combined the economic and non-economic factors into one comprehensive study, then further investigation on different variables is required. Therefore, the researcher would like to try the difference way through combining between economic and non-economic factors that could affect the fluctuation on stock price in pharmaceutical industry during COVID-19 shock.

Based on the explanation above, researcher is interested to explore further on how far the world oil price, exchange rate, and Dow Jones index as economic factors and confirmed cases of COVID-19 as non-economic factor affect the stock price fluctuation of pharmaceutical sector through the research entitled **“The Effect of COVID-19 Shock, World Crude Oil Price, Exchange Rate, and Dow-Jones Index on Stock Price Fluctuations of Pharmaceutical Sector Listed in IDX”**

1.2 Research Problem

From the background of the problems stated above, several problems can be identified which will be studied later and more in depth discussion to obtain a further explanation. The problems of the study are:

1. Does world crude oil price related to COVID-19 shock significantly affect the stock price fluctuations on Pharmaceutical sector listed in IDX?
2. Does exchange rate related to COVID-19 shock significantly affect the stock price fluctuations on Pharmaceutical sector listed in IDX?
3. Does Dow Jones index related to COVID-19 shock significantly affect the stock price fluctuations on Pharmaceutical sector listed in IDX?
4. Does confirmed cases of COVID-19 significantly affect the stock price fluctuations on Pharmaceutical sector listed in IDX?

1.3 Research Objectives

In accordance with the formulation of the problem above, the objectives of this study are:

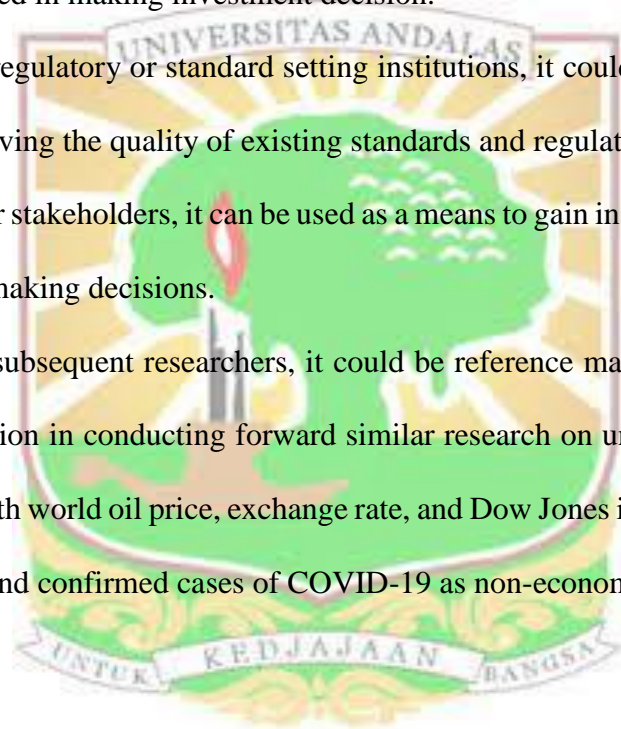
1. To examine the impact of World Crude Oil Price related to COVID-19 shock toward the stock price fluctuations on Pharmaceutical sector listed in IDX
2. To examine the impact of Exchange Rate related to COVID-19 shock toward the stock price fluctuations on Pharmaceutical sector listed in IDX
3. To examine the impact of Dow Jones Index related to COVID-19 shock toward the stock price fluctuations on Pharmaceutical sector listed in IDX

4. To examine the impact of confirmed cases of COVID-19 toward the stock price fluctuations on Pharmaceutical sector listed in IDX

1.4 Research Purpose

This research is expected to give some benefits which are:

1. For the investor, it provide insights in considering aspects that need to be considered in making investment decision.
2. For the regulatory or standard setting institutions, it could be used as input in improving the quality of existing standards and regulations.
3. For other stakeholders, it can be used as a means to gain insight, thus it could help in making decisions.
4. For the subsequent researchers, it could be reference materials and source information in conducting forward similar research on unpredicted-related event with world oil price, exchange rate, and Dow Jones index as economic factors and confirmed cases of COVID-19 as non-economic factor.



1.5 Writing Systematic

The systematics of writing in this study consisted of CHAPTER I, namely introduction, CHAPTER II review of the literature, CHAPTER III research methodology, CHAPTER IV research results and CHAPTER V conclusion.

In CHAPTER I there is background, problem formulation, research objectives, research benefits and writing systematics. Furthermore, in CHAPTER II there is an

explanation of general theories and concepts, a review of previous research, directions regarding developing the hypothesis, and a conceptual framework. It is then continued in CHAPTER III, which discusses research design, population and research samples, data collection methods and sources, operational definitions and measurements of research variables, data analysis methods, and hypothesis testing procedures.

After completing CHAPTER I, II, and III, the next step is the preparation of CHAPTER IV and V. CHAPTER IV contains an explanation of the general description of the research object, data related to research variables, and description of research results. Then finally, CHAPTER V which contains an explanation of the conclusions of the research done, implications of research, limitations of the study, and useful suggestions for future research.

