CHAPTER I

INTRODUCTION

1.1. Research Background

There is no denying that the capital market is current important issue on a country's economic journey. Capital market has a strategic role as a "financing facilities" for the business environment and "investment facilities" for the public communities (Fahmi, 2012). Therefore, the development of capital market become a benchmark for economic growth in a country. Owing to the fact that capital market is a leading indicator for a country's economic growth, the Government also participates in supporting the capital market operation by issuing general provisions on the capital market through Law of the Republic of Indonesia Number 8 of 1995[1].

According to the Law No. 8 of 1995 on the Capital Market, the Financial Services Authority, hereinafter referred to as OJK is appointed by the Ministry of Finance as a government agency which has authorities to conduct daily guidance, regulation and supervision of the capital market with the aim of realizing the creation of activities Capital Markets orderly, fairly, efficiently and also to protect the interests of public investor. While the agency that has a role to provide rules, systems, and facilities for trading securities in Indonesian capital market is the Indonesia Stock Exchange (IDX). The capital market industry in Indonesia has developed quite rapidly and dynamically[2].

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[1] https://www.ojk.go.id/id

[2] By seeing the number of listed companies on the Indonesia Stock Exchange which currently reaching 680 companies at the relatively young age https://ticmi.co.id/datapasarmodal

Capital market is one of the economic instruments which resolutely influenced by any event (Savitri, 2015). It refers to the event that has information content for the investors, whether financial or non-financial information. Jogiyanto (2014) stated financial information that can be obtained from capital market are the issuance of financial statements, the announcements of dividend distribution, the announcements of mergers or acquisitions, the open or closed price of stock, corporate action such as stock split, right issue, delisting, and others. While non financial information is the information that has no correlation with the company or economic issues but it might influence the investor's investment decision such political events, natural disasters, government policies, world events like war or civil unrest, national holiday, unexpected events, etc.

The investors need available information in the market on determining investment decisions. An information would be considered informative if the information is able to stimulate the investors to do transactions in the capital market. The market reacts quickly and accurately to attain new equilibrium prices which fully reflects all relevant information about the company's condition at the trading time and also, this information is spread evenly to the investors so the investor has any prediction or anticipation to the information that they obtained, then this market condition called as an efficient market (Hanafi, 2004).

The information about capital market condition and stock price performance in the stock exchange can be seen through Composite Index. Composite index is a value which can be used to measure the performance of

composite stocks listed on stock exchange and to measure whether market prices has fluctuated or not[3]. The stock market is very sensitive, the stock prices can change at any time, all events that occur, both economic and non-economic events can affect the stock market movement. (Brennan & Hughes, 1991). To prove whether the stock price change or stock movement is the form of capital market reaction to an information, testing the information content should be conducted, this called as event study.

Examining the information content is intended to observe the reaction from an event. This reaction can be measured with returns as the changes of price value by using abnormal returns (Jogiyanto, 2003). Fama (1970) stated that abnormal return is the difference of expected return and actual return that investor obtained which can be positive and negative difference. If the events contained valuable information, then the investor will receive positive abnormal return. Investors also assess information content through the level of stock liquidity, where the level of stock liquidity itself can be measured by trading volume activity and bid ask spread (Mar'ati, 2012). To see the market reaction with abnormal return, trading volume activity and bid ask spread variable, we have to distinguish the each variable before and after an event day.

Trading volume activity is one of the market reaction indicator to an information. Trading volume activity (TVA) is an instrument that can be used to see the reaction of the capital markets to the information through stock trading volume parameter (Husnan, 2005). The information on capital

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[3] https://www.idx.co.id/media/8572/idx-stock-index-handbook-_-v11-_-desember-2019.pdf

market can influenced stock trading volume, the higher the TVA after an event reflects that the shares are easily sold or converted to cash, thus it indicates the information can influence the trading volume of shares in capital market.

Study on capital market reactions also can be seen from the bid ask spread indication. If the market absorbs information of an event, then changes in stock prices occur and cause a difference in bid ask spread before and after the event. According to Darmadji & Fakruddin (2001), Bid ask spread is the difference between the price offered by the seller and the price proposed (bid) by the party who will buy the shares. Sharpe (2005) stated that the smaller the bid-ask spread (the difference), meaning that the range of demand and supply prices are close, so the possibility of transactions is greater, then it will increase liquidity.

The study on how the information influences capital market reactions has conducted by several researchers, such as studies by Utami & Asandmimitra (2017) and Janiantari & Badera (2014) who examined how stock split announcements caused abnormal returns, trading volume activity and bid ask spread. Then, Lukman & Firdausi's research (2017) who examines the impact of right issues announcements on stock abnormal returns. Also, a study from Kusuma (2016) that assesses capital market reactions before and after mergers and acquisitions. The results of these previous studies indicate that financial information is influenced investor's decisions directly, since it has direct correlation to the company, so these information affects capital market reaction.

However, the study examines how an event contained non-financial information affects capital market reactions has not been much studied as event contained financial information. Egger & Zhu (2019) examined how The US-China Trader influence capital market reaction and shows the results that there is a decrease in abnormal return and trading volume activity before and after the event. The results of the studies on how non-economic events affect investors' decisions generally do not show a significant result if the events are ordinary, repetitive and can still be anticipated (Nugraha & Suroto, 2019). The researcher assumes that the capital market reaction indication to non-financial information depends on the size of the impact of the event itself on economic conditions and the companies.

In the beginning of 2020, Coronavirus outbreak or known as COVID19 outbreak became a bad news for all people across the world. The outbreak was first identified in Wuhan, Hubei, China in December 31st, 2019. According to the World Health Organization (WHO), Coronavirus or severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) is a virus that attacks the respiratory system and can cause mild disturbances in the respiratory system, severe lung infections, and even death[4]. WHO stated that this virus spreads much more readily than previous respiratory virus like SARS or MERS.

On January 13, 2020, WHO reports positive case of coronavirus in Thailand which became the first case of coronavirus outside China. This virus continues to spread around the world, just by the end of February 2020, it is

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[4] https://www.who.int/emergencies/diseases/novel-coronavirus-2019

more than 3,800 people have died globally from COVID-19, while more than 110,00 infections have been confirmed in 124 of countries around the world [5] and the outbreak was declared a Public Health Emergency of International Concern [6]. Even it was limited by quarantine, but it has nevertheless spread over China's borders with outbreaks in Iran, Italy, South Korea and Japan per February, 29th 2020[7].

In this strongly connected and integrated world, the outbreak of coronavirus not only disrupted the Chinese economy, it will also certainly spreading globally. Amidst the slowing down of the Chinese economy with interruptions to production, the functioning of global supply chains has been disrupted. Ivanov (2020) underline that the COVID-19 outbreak represents one of the major disruptions encountered during the last decades which is "breaking many global supply chains". Transport being limited and even restricted among countries has further slowed down global economic activities, some panic among consumers and firms has distorted usual consumption patterns and created market anomalies (McKibbin & Fernando, 2020). Global financial markets have also been responsive to the changes and global stock index have plunged. Global financial markets and global stock index are reacting sharply to the coronavirus outbreaks[8].

As coronavirus has been declared a Public Health Emergency of International Concern and continuing to spread globally, the global stock exchange condition continues to decline as of early February 2020. Ashraf

[5] Data was retrieved from https://www.worldometers.info/coronavirus/ on February 29th, 2020
[6] https://www.coronavirus.gov
[7] https://www.ecdc.europa.eu/en/threats-and-outbreaks/reports-and-data
[8] https://finance.yahoo.com/news/is-the-stock-market-overreacting-to-coronavirus

(2020) stated that concerns about the spread of the disease and a global financial slowdown are driving deep dips in the stock market as investors continue to worry about the broader economic effects of the coronavirus, hence the global markets sell off while sharply increasing recession risk[9]. Financial markets across the world have started to tumble, for instance in United States, S&P 500 plunged to 2237.40 at the end of Februay, 2020, a fall of over 30% within one month. The standard deviation of daily returns in February was 0.0069[10].

Even though Indonesia still not confirmed the existence of coronavirus cases yet while other 5 Southeast Asian countries[11] has confirmed cases by the end of February, but this event has brought a prodigious stigma to the investors in Indonesia's financial markets even before COVID19 was truly identified and confirmed in Indonesia, due to the fact of Indonesia reliance on China in economic aspect is quite high. Indonesia and China has established intense economic cooperation largely given that China is the largest trading partner and investor for Indonesia[12].

On March 2, 2020, Indonesian President Joko Widodo announced Indonesians had tested positive for coronavirus after being in contact with an infected Japanese national, marking the first confirmed cases in this country[13]. Indonesian capital markets react quickly to the events of the first case of

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[9] https://www.nasdaq.com/articles/coronavirus

[10] Data was retrieved from https://www.investing.com/indices/us-spx-500 on February 28,2020

[11] Singapore, Vietnam, Malaysia, Cambodia, Philippines

[12] https://www.bkpm.go.id/id/statistik/investasi-langsung-luar-negeri-fdi (IICB) 74 percent of Indonesia's raw material imports come from China and total Chinese investment in Indonesia as of the third quarter of 2019 reached USD 4.7 billion and 32,209 total workforce.

[13] https://covid19.kemkes.go.id/

coronavirus in Indonesia being announced by President Joko Widodo. The march 2, 2020 announcement is an alarm that coronavirus pandemic has entered and spread to Indonesia. In one side, the public investors worry about the broader economic effects of the coronavirus, while in the other side, there are several stock sectors that has fluctuated increased due to "panic buying" of this announcement such consumption and pharmacy sector[14].

Coronavirus pandemic is currently the hottest issue in Indonesia. One indicator of testing the information content of capital market reactions is the change in prices of a security on the capital market. The information content, in this case is, the confirmation of coronavirus has spread to Indonesia or non financial information has an impact on the changes of stock prices[15]. To prove how far and significant this event affect capital market reaction, the author is interest to doing research and do more analyze on it. This study was conducted on LQ45 stock index listed since it is the most active stocks so that those stocks are more sensitive to detect market reaction to any information, whether financial information or non-financial information and LQ45 shares represent all stock sectors in Indonesia Stock Exchange (IDX).

This research uses event study method. The event window in this study is for one month trading or 30 trading days, which consists of 15 days before Coronavirus Pandemic was Confirmed to Have Spread to Indonesia, 1 day of the confirmation and 15 days after Coronavirus Pandemic was Confirmed to Have Spread to Indonesia. The use of the observation period refers to the method used by Seralurin (2011). One month trading observation periods

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[14] https://www.investing.com/indices/idx-consumer-industry daily data
[15] https://rti.co.id

considered appropriate not too long and too short because at the time of writing this research, coronavirus pandemic in Indonesia is still ongoing and the disease still spread to countries across the world which give impact to global market. Then, to analyze whether there is no other event except this event in Indonesia that influence Indonesia's stock market such BUMN cases, the crude oil war between Saudi Arabia and Russia, The Fed cut its benchmark interest rate and other events in the beginning of 2020. A period that is too short or too long may cause undetectable market reactions and will give effect to the result of this observation.

Based on the explanation above, the author is interested to explore further how far the confirmation of coronavirus has entered Indonesia on March 2, 2020 affect capital market reaction, which are abnormal return, trading volume activity and bid-ask spread through research entitled "**Analysis of The Differentiation of Abnormal Return, Trading Volume Activity and Bid-Ask Spread Before and After Coronavirus Pandemic was Confirmed in Indonesia**"

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. Is there any significant differences of Abnormal Return before and after Coronavirus Pandemic was Confirmed in Indonesia?

2. Is there any significant differences of Trading Volume Activity before and after Coronavirus Pandemic was Confirmed in Indonesia?

3. Is there any significant differences of Bid-Ask Spread before and after Coronavirus Pandemic was Confirmed in Indonesia?

1.3. Research Objectives

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

1. To know the significant difference of Abnormal Return before and after Coronavirus Pandemic was Confirmed in Indonesia.

2. To know the significant difference of Trading Volume Activity before and after Coronavirus Pandemic was Confirmed in Indonesia.

3. To know the significant difference of Bid-Ask Spread before and after Coronavirus Pandemic was Confirmed in Indonesia.

1.4. Research Purpose

This research is expected to give some benefits which are:

1. For researcher, this research is to know the differentiation between Abnormal Return, Trading Volume Activity and Bid-Ask Spread before and after Coronavirus Pandemic was Confirmed in Indonesia.

2. For the investor, this research is to know the next event, to make the decision whether buy, hold or sell their stock and also to know how non economic condition or non financial information can influence the Abnormal Return, Trading Volume Activity and Bid-Ask Spread.

3. For the reader, this research can be reference materials and source information in conducting forward similar research.

1.5. Writing Systematic

This research is arranged systematically as follows:

1. Chapter I

   Introduction, discuss about general description that become research basic. Consist of the background of the problem, problem formulation, research objective, research purposes and writing systematic.

2. Chapter II

   Literature Review and Prior Research, discuss about theoretical frameworks to give the insight of the research conducted and also the review of previous research.

3. Chapter III

   Research Methodology, provide overview of plan in doing the research. Along with theories from literature review, this chapter will encompass the research. The chapter includes type of research, research limitation, types and sources data, and the analysis method.

4. Chapter IV

   Analysis and Discussion, contain data processing result based on research methodology.

5. Chapter V

   Conclusion and Suggestion, contains conclusion about research result. It also contain suggestions for the next research.