CHAPTER I
INTRODUCTION

1.1 Research Background

The uncertainty about when the COVID-19 will subside in Indonesia brings chaos on financial markets and a crisis in real economies. Along with the outbreak and the increase in the COVID-19 cases over time, the overall economic environment and economic activity get depressed, thus placing Indonesia in 18th place in the world with the widest cases based on Woldometers data, 4th in Asian countries, and the order first in Southeast Asia.

To prevent the transmission of COVID-19 in Indonesia, governments introduced PSBB or large-scale social restrictions like restriction imposed on internal movement and international travel controls, school and university closures, work from home, non-essential shop, bar, and restaurant closures, canceling public events, and the suspension of business activities of many companies. The preventive actions and consecutive announcements on new cases and deaths have generated huge financial and commodity markets. Unfortunately, the government's social distancing (Work from home and large-scale social restrictions) policies preventing the spread of COVID-19 have made many companies unable to carry out their normal operational activities. Thus, COVID-19 Pandemic, as a public health emergency, is not

only causing human infections and deaths, it is also disrupting the market (He, Sun, & Tao, 2020).

Capital markets are also hit hard, so stock market crashes were observed in Asia, Europe, and North America (Corbet et al. (2020) and Zhang et al. (2020). As we know, the capital market plays an important role in a country's economy, including Indonesia. The capital market is a measure of economic development where the development of transaction activities in the stock exchange, as indicated by an index, can measure the economic conditions as a whole. The COVID-19 Pandemic made investors withdraw their capital or sell stocks which caused the JCI to decline. It was proven that on March 13, 2020, the Indonesia Stock Exchange had to trade halt because the JCI had decreased by 5.01%.

Especially, the uncertainty about the COVID-19 cases could be a signal to the financial market and its participators about the development of the Pandemic (Xu, 2020). It follows how the capital market reacts to the surge in infection cases, and its uncertainty needs an investigation. One may wonder if the capital market worries more about the rise in COVID-19 cases or the uncertainty about the Pandemic. Therefore, it is necessary to investigate how the capital market reacts to the increase in infections. Users might wonder if the capital market is more concerned about the increase in cases of COVID-19 or the pandemic uncertainty.

In mid-2020, President Joko Widodo announced the development of a COVID-19 vaccine. This is expected to reduce the transmission rate of the

Coronavirus so the Pandemic can end at a later date. The Government of Indonesia, through the Decree of the Minister of Health No. H.K. 01.07/Menkes/9860/2020 determined six types of vaccines for COVID-19 vaccination in Indonesia, including those produced by P.T. Bio Farma (Persero), Astra Zeneca, China National Pharmaceutical Group Corporation (Sinopharm), Moderna, Pfizer Inc & BioNTech, and Sinovac Biotech Ltd. The clinical trial of the Sinovac vaccine conducted by Bio Farma is targeted to be completed in January 2021. It is proven that on January 13, the first injection of the vaccine was carried out to President Joko Widodo along with officials from the ministry, representatives from each organization, and religious leaders. Bio Farma may mass-produce this vaccine in late January 2021 or early February 2021. The announcement provides a bright spot for developing the capital market and the composite stock price index. At the time of the initial injection of the vaccine, the composite stock price index increased. The following is the stock price of Jakarta Composite Index data at the time of the initial injection of the vaccine :

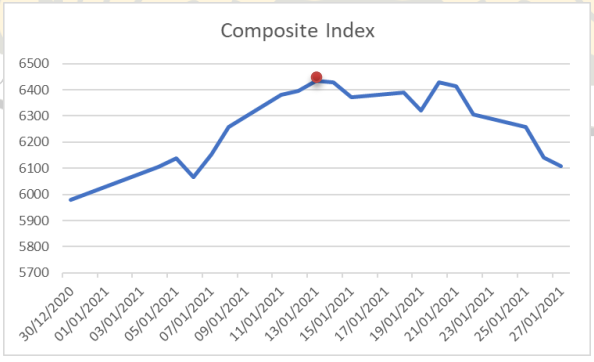

Figure 1. 1 JCI Stock Price Movement

From figure 1.1, we can see that the market reacts to the announcement of initial vaccine injection with the increase of frequency of trading transactions due to high demand, which causes an increase in stock prices, the volume of trading, and the return. The large volume of trading indicates that investors prefer the stock (Trisnowati & Muditomo, 2021). The investor tendency is to get interested in stocks that give high returns even if it is risky (Taslim & Wijayanto, 2016). In making investment decisions on the capital market, investors always follow the development of useful information for investors regularly.

When the initial vaccine injection announcement is published and received by market players, market players will immediately analyze and select the information to be good news or bad news. Abnormal return is used as a measuring tool to analyze market reactions ((Dewi & Rahyuda, 2014).

Abnormal return is the difference between actual return (results obtained from investors) and expected returns that occurred before the issuance of official information or occurred because of the existence leakage of information after the issuance of official information (Samsul, 2006). The difference between the two returns can be a positive difference and a negative difference.

Abnormal return is positive if the actual return is greater than the expected return. This situation will cause investors to be attracted to make

transactions around the announcement period with the hope of getting a profit above normal. Still, if the situation happens otherwise, the market will react negatively (Wistawan, 2014). A market reacting to information is very important because it can result in price changes that make abnormal returns change and changes in investors' perceptions of making investment decisions.

Besides the abnormal return, to determine the capital market's reaction more comprehensively, it is also necessary to measure the activity of stock trading in the capital market. A commonly used calculation is trading volume activity (TVA). Trading volume is often used to analyze the stock movement because trading volume describes the meeting between supply and demand for stock transactions (Saputra, Pulungan, & Subiyanto, 2021). As a result of changing daily trading volume activity, the market reaction to an event can be seen. When the volume of trade between pre-event and post-event changes significantly, it is assumed that this will react to the event.

The large volume of trade reflects that investors like these stocks so that stocks are traded quickly and, in turn, will increase stock liquidity (Janiantari & Badera, 2014). The level of stock liquidity can be seen from the change in the bid-ask spread. The bid-ask spread is the difference between the lowest bid-ask price and the highest buying price at the end of trading hours for a type of share on the IDX. Knowledge of the bid-ask spread is very necessary for investors, especially those who expect capital gains. This is seen as one of the components considered in stock trading (Ambarwti, 2008).

The research carried out by several researchers on how the information influences capital market reactions, such as studies by Utami and Asandamitra (2017), who analyzed the market reaction to the announcement of a stock split, the result shows that there is no difference in trading volume in the period before-at the moment and before-after stock split, meanwhile, Nugraha and Suroto (2019) analyzed market reaction using the event study method with events Presidential Election, the results of this study are contrary to the previous study where the results were found there is a significant difference on the average of negative trading volume activity, before and after the presidential election 2019. This means that the difference between an event will make a difference to the market reaction.

However, research on how extraordinary events such as COVID-19 contained non-financial information affecting each sector in capital market reactions has not been much studied as events contained financial information. He et al. (2020) analyzed COVID-19's impact on stock prices across different sectors. The result found that healthcare industries have been resilient to the Pandemic. Subiyanto et al. (2021) examine whether there are differences in the stock market in pharmaceutical stocks before and after announcing the first case of the COVID-19 in Indonesia. COVID-19 is a typical black swan event, and its occurrence, development, and even disappearance and the depth, breadth, and intensity of its impact all unknown (He, Sun, & Tao,

2020). The stock market is an economic barometer, and the capital market reflects the overall economy of a country.

Public investors worry about the broader economic implications of Coronavirus. At the same time, on the other side, several stock sectors are fluctuating because of "panic buying," such as the consumption sector and the pharmacy sector. So, to prove how far and significant this event affects capital market reaction, the author is interested in doing research and doing more analysis on it. This study was conducted on the Healthcare sector at the stock index listed since it is the most active stock at initial vaccine injection.

Based on the explanations of the background of the problem, the researcher is interested in carrying out the research entitled **"Analysis of Differentiation of Abnormal Return, Trading Volume Activity, Bid-Ask Spread, Before and After Initial Injection of The Vaccine COVID-19 in Indonesia."**

1.2 Problem Statements

Based on the explanation that describes in the background, the problems that will be formulated were as follow:

1. Are there any significant differences in Abnormal Returns before and after the initial injection of the vaccine in Indonesia?
2. Are there any significant differences in Trading Volume Activity before and after the initial injection of the vaccine in Indonesia?

3. Are there any significant differences in Bid-Ask Spread before and after the initial injection of the vaccine in Indonesia?

1.3 Research Objectives

This research aims to obtain empirical evidence about:

1. To know the significant difference of Abnormal Return before and after the initial injection of the vaccine in Indonesia.
2. To know the significant difference of Trading Volume Activity (TVA before and after the initial injection of the vaccine in Indonesia.
3. To know the significant difference of Bid-Ask Spread before and after the initial injection of the vaccine in Indonesia.

1.4 Research Benefits

This research is expected to provide benefits in the form of :

1. This research aims to know the differentiation between Abnormal Return, Trading Volume Activity, and Bid-Ask Spread before and after the initial injection of the vaccine in Indonesia.
2. For the investor, this research is to know the next event and decide whether to buy, hold or sell their stock and know-how non-economic condition or non-financial information can influence the Abnormal Return, Trading Volume Activity, and Bid-Ask Spread.

3. For companies, this research can contribute thoughts about how these events might affect their stock prices to maintain their survival due to crisis.
4. This research could further research the Abnormal Return, Trading Volume Activity, and Bid-Ask Spread for the subsequent researchers.

1.5 The Scope of Research

This research analyzes the differences of the Abnormal Return, Trading Volume Activity and Bid-Ask Spread by observing the company's stock prices, especially in the healthcare sector listed in the Indonesian Stock Exchange (IDX) due to the COVID-19 Pandemic.

1.6 Writing Systematic

The structure of this research paper is divided into five chapters and presented as follows:

CHAPTER I: INTRODUCTION

This section contains the research background, problem statement, research objectives, research benefits, research scope, and systematic writing.

CHAPTER II: LITERATUR REVIEW

This section describes the theories related to research problems, previous studies' results, and directions regarding developing hypotheses.

CHAPTER III: RESEARCH METHODS

This section consists of research design, population and research sample, data collection methods and sources, operational definitions and measurements of research variables, data analysis methods, and hypothesis testing procedures.

CHAPTER IV: RESEARCH RESULTS AND DISCUSSION

This section discusses the result of hypothesis testing and the interpretation of the result obtained.

CHAPTER V: CONCLUSION

This section contains the conclusions of the research done, implications of research, limitation of the study, and suggestion useful for future research.

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