

## Research Article

## Market Reaction Before and After the Declaration of Presidential Candidate for Vice President in Indonesia Year 2018

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**Abstract:** Political events are a part of a non-economic environment that can affect capital market conditions, as it is essentially the behavior of investors in making decisions not only based on technical analysis or fundamental analysis, But also pay attention to political situation. Of the various political events that occurred in Indonesia, one of the events that became Trending topic in various mass media in the year 2018 namely the event of the declaration of presidential candidate and prospective vice president for the presidential election of 2019. This study used the analysis method of the event study. This study examines the change in the stock price and the activity of volume of stock trading on the Indonesia Stock Exchange (IDX). The period of research used is 6 days of exchange, covering 3 days before the event and 3 days after the event of the declaration of presidential candidate and vice president in Indonesia year 2018. The statistical test used to test the hypothesis is the One Sample T-test test, the different Paired Sample T-test test, and the Wilcoxon Signed Rank Test. The results showed that: 1) based on statistical test results against abnormal return on the shares of LQ 45 during the research period, the events of the declaration of presidential candidate and vice presidential candidate in Indonesia year 2018 raises the market reaction Largely negative value. 2) based on statistical test results against the period before and after the event of the declaration of presidential candidate and prospective vice president in Indonesia year 2018 indicates that there is no significant difference to the Average value Abnormal Return (AAR) shares. 3) based on statistical test results against the period before and after the event of the declaration of presidential candidate and prospective vice president in Indonesia year 2018 indicates that there is no significant difference to the Average value Trading Volume Activity (ATVA) shares.

**Keywords:** Capital Market, LQ-45 Index, Event Study, Abnormal Return.

### INTRODUCTION

The company is a business entity whose main purpose is to maximize profits for shareholders so that it should be able to maintain its business continuity in the future. Investors have the main goal in instilling funds into the company, namely to look for income or rate of change investment (return) in the form of dividend yield and income from the difference in selling price of shares to the purchase price (capital gains) (Firdaus, I., & Sediaz, S.R.B. 2017) Information obtained by investors and prospective investors regarding price variability shares during the trading period on the exchange are useful for investment decisions is running or going to run (Tandelilin, E. 2010). Therefore, the company needs capital that can come from both internal and external. The company may use the retained earnings (retained earnings) as a

source of internal capital and issue debt or stock (equity) as an external source (Rachman, R.A., & Ervina, D. 2017). The dynamic capital market activity in a country will reflect the good business climate conditions in the country concerned. The good capital market performance is a barometer of the economy that will lead to the excitement of investors to re-invest (Tandelilin, E. 2010), where the index is a reflection of the stock price movement in the capital market. Therefore, the direction and magnitude of changes in the indices in the capital market become one of the benchmark for investors in order to invest in the capital market. As an economic instrument, the capital market is not separated from various environmental influences, both economic and non-economic environment. The influence of micro-economic environment such as corporate performance, change of corporate strategy,

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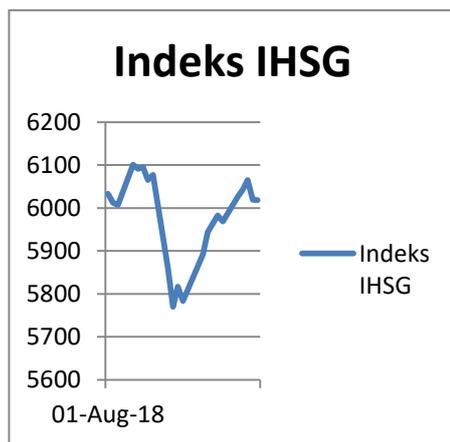
announcement of financial report or dividend of company has always got response from market participants in the capital market. In addition, macroeconomic environmental changes such as savings and deposit rate changes, foreign exchange rates, inflation, as well as regulation and economic deregulation issued by the government, also impact on price fluctuations and Trading volumes in the capital markets (Jogiyanto. 2010). While the influence of non-economic environment, one of which is influenced by political events, such as the presidential elections (*pilpres*), election legislative (*pileg*), change of government, announcement of ministerial cabinet, political unrest, Warfare and other events greatly influenced the price and trading volumes on stock exchanges because political events were closely related to the economic stability of the state (Hutami, R. N., & Ardiyanto. 2015). Political events are one of the non-economic risks that can affect the investor's decision to invest in the capital market, because a country's political situation essentially affects the country's economic conditions (Katti, S. W. B. 2018).

Taking the decision to buy or sell stocks by investors on exchanges will be heavily influenced by the political situation. If the political and security situation is uncomfortable then the investor will be reluctant to invest, even will avoid it. Conversely, with the political and economic stability will make investors tend to want to invest in stock exchanges. The expectations of investors posed by political events will generally be reflected in the price or volume of stock trading. The presidential election is a political situation that occurs only once in five years and is very interesting to research. A country leader will determine

the political direction and economic policies that occur in a country (Sudewa, D. G. O., & Sari, M. M. R. (015). The price of the securities reflects all the information currently available, then the price change should reflect the new information. Therefore, an investor must be able to measure the importance of an interesting event by examining the price changes during the event occurring (Katti, S. W. B. 2018).

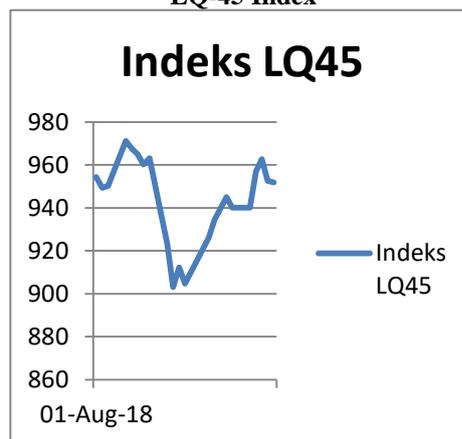
From various political events that occurred in Indonesia, one of the events that became Tranding topic in various mass media in the year 2018 namely the event of the declaration of presidential candidate and prospective vice president for the presidential election 2019. This political movement is blatantly reflected in the coverage of various media, whether television, newspapers, magazines or other media such as social media (Mulyana, A., & Iskandar, D. 2015). The event of the declaration of presidential candidate and prospective vice-president occurred on Thursday, August 9, 2018 followed by the couple Joko Widodo KH. Ma'ruf Amin and the couple Prabowo Subianto and Sandiaga Shalahuddin Uno. Declaration of spouse candidate her performed simultaneously on the same day before the next day on Friday, August 10, 2018 the two spouses officially register at the KPU office where on that day is the final deadline for registration Prospective presidential candidate and prospective vice presidential candidate for 2019 presidential election. On the day of the declaration of presidential candidate and prospective vice president, market conditions on the Indonesian stock exchange run as usual and overall the index movements on the Indonesia stock Exchange can be described as follows :

Picture 1. Composite Stock price Index



From picture 1 above, it can be seen that H-1 before the declaration of presidential candidate and prospective vice-president on Wednesday, August 8th, 2018 the composite Stock price index (IDX) moved volatile and closed strengthened in the 6094.83. Increase in IDX and index LQ-45 on the day after the declaration of presidential candidate and vice president

Picture 2. LQ-45 Index



reflects the optimism and confidence of investors to the prospects of the development of Indonesia's economy.

The problem in this research is "what is the political event (declaration of presidential candidate and prospective vice president) that occurs, is reacted by the market indicated by the presence of a significant

abnormal return on stock trading?". Based on the above conditions, researchers are interested in conducting event studies on the reaction of capital markets to events that are not directly related to economic events such as political events. In this study will be seen the presence or absence of abnormal return and direction of movement. If abnormal return stock looks significantly positive, it means the market reacts positively, but if that occurs otherwise the negative return of the stock is significant negatively, it means the market reaction is also negative.

The period of observation used in this study is 6 days of exchange (trading days), consisting of the T-3 (3 days before) and T + 3 (3 days after) the political event of the declaration of presidential candidate and candidate for vice President 2018. The use of the 6-day stock exchange is deemed well worth researching the stock price, abnormal return, and also trading volume activity in order to focus on the influences arising from the event. In addition, researchers also avoided periods of time that were too long due to the occurrence of habits in research data resulting from other events.

## MATERIALS AND METHODS

### Capital Market theory

According to (Dangol, J. 2006), Chapter I article 1 point 13 of the capital market mentions that: "Capital markets are the activities concerned with public offerings and securities trading, public companies relating to the securities published and the Institutions and professions Related to the effect". Basically, capital market is a market for a wide range of long-term financial instruments that can be traded, both in the form of capital and debt. Stocks are one of the instruments traded in the capital market (Hartono, J. 2013).

### Event Study

In the definition of an event study is a study studying the reaction of the market to an event, whose information is published as an announcement. This Event study can be used to test the information content of an announcement.

Testing the content of information is meant to see the reaction of an announcement or event. If it contains information then the market is expected to react, the market reaction is indicated by the change in the price of the securities concerned, this reaction can be measured by using an abnormal return.

### Trading Volume Activity

The trading volume activity is the whole value of the buying and selling of stocks made by the investor in the money unit (Foster, G. 1986). Reviewed from its function, the trading volume activity is an instrument that can be used to view the reaction of the capital market to the information through the parameters used to adjust the market reaction to an event. If the trading

volume increases due to increased demand, it indicates that the event is good news for market participants, while increasing the trading volume is a result of increased Of sales, it can be interpreted that the event is a bad news (Suherman, S. et al 2016).

### Abnormal Return

Return is one of the factors that motivates investors to invest and is a reward or result gained on the courage of investors to bear the risk of investing. An Abnormal return is a real return to the expected return of normal (expected return).

Return is actually an income that has been received by the investor, while the expected return is the desired income that can be received by the investor at a future time. Abnormal return can occur as a result of certain events, such as national holidays, early months, erratic political atmosphere, extraordinary happenings, stock split, Prime offers of stocks, etc. (Hartono, J. 2013). Abnormal return will result in a positive value when the realized return is actually greater than the expectation return and the investor will benefit above normal, likewise the other way bilareturnnegative value. Abnormal return is used to measure market reaction of the information content of an announcement. If an announcement generates an abnormal return for the investor means the announcement has information and the reverse announcement that does not result in abnormal return means the announcement has no information content (Sukirno, D.S. 2003).

### Hypothesis

- H<sub>1</sub>:** There is a significant difference in the Average Abnormal Return (AAR) Shares of LQ-45 before and during the event of the declaration of presidential candidate and vice President of Indonesia year 2018
- H<sub>2</sub>:** There are significant differences in the Average Abnormal Return (AAR) stocks of LQ-45 during and after the event of the declaration of presidential candidate and prospective vice president in Indonesia year 2018.
- H<sub>3</sub>:** There are significant differences in the Average Trading Volume Activity (ATVA) Shares of LQ-45 before and after the event of the declaration of presidential candidate and prospective vice president in Indonesia year 2018.

### Design Research

The design in this study uses quantitative research methods. The quantitative research design in this study was supported by using an event study approach. The study of events aims to determine the market's reaction to certain events, whether economic, political, social, or other events. This approach will be used to analyse the reaction of Indonesian capital market against the declaration of presidential candidate

and presidential candidate in 2018. This research was conducted in IDX through its official website (www.idx.co.id). The period of observation in this study for 6 days of exchange, namely T-3 (3 days before) and T + 3 (3 days after) from the event of the declaration of presidential candidate and the prospective vice president precisely on 6-8 August and 10, 13 and 14 August 2018.

**Population and samples**

The population in this research is the entire company listed on the Indonesia Stock Exchange (IDX) and the LQ45 index until the research period of August in 2018. While the samples are part of the number and characteristics owned by the population (Sugiyono. 2012). The criteria used are:

- Is a company registered in the index of LQ45 in the period of 6-8 August and 10, 13 and 14 August 2018. (The selection of LQ45 Index company because the company is relatively actively traded and responded to the market).
- Presenting complete data related to the variables used in the research (daily cover share price, daily stock trading volume, daily LQ45 index, and the number of outstanding shares).
- Do not conduct corporate actions during the research period, such as: Announcements and dividend distribution, merger, split stock, and other activities.

**Data Collection Techniques**

The type of data used in this study is quantitative data. The data source used in this study is a secondary data source, which is a historical data of all the companies listed in the LQ-45 index during event day and post event day. Data is obtained from the official website of IDX (www.idx.co.id).

**Data Analysis Techniques**

Analysis was conducted using the analysis techniques of event study to process and discuss the data obtained.

According to (Elton, G. B. 2009) the methodology for event study generally follows the following procedure:

1. Collecting samples of companies that have an event to be researched.
2. Determine the exact day or date of the event.
3. Determine the period of research or event window.

**Hypothesis Testing**

The hypothesis testing was conducted using two related average difference tests i.e. paired Samplet-Test with SPSS software version 23, that is by comparing the average trading activity volume and abnormal return averages before and after Declaration of presidential candidates and prospective vice presidents in Indonesia. The T-test for two related samples is to test the average difference in pairs between the two samples and for parametric testing (Hartono, J. 2016). The testing technique is performed using a paired sample T-Test due to normal distributed probability data, with the formula:

$$t = \frac{X_i - X_2}{\frac{Sd}{\sqrt{n}}}$$

Testing paired sample T-Test, variable between before and after the declaration of presidential candidate and prospective vice president in Indonesia by using the confidence level of 95% or  $\alpha = 5\%$ , with the following provisions (Ghozali, 2013):

- a. If the value of Asymp. Sig. (2-tailed) less than 0.05 or 5% means the data in the study has significant differences.
- b. If the value of Asymp. Sig. (2-tailed) more than 0.05 or 5% means the data in the study has no significant difference.

Alternative if the data is not distributed normally, then it will be carried out average difference test Wilcoxon Signed Rank Test with SPSS application program version 22. The basic withdrawal conclusion is if the P-value statistical test value is Wilcoxon < 0.05 then the zero hypothesis (H0) is rejected and Ha is accepted.

**RESULTS AND DISCUSSIONS**

**Statistic Test Result**

The statistic Test Result as follows

**Table .1 Test result One Sample T-Test against Abnormal Return during the research period**

Period	AAR	T count	Sig.	Description
t-3	0,01519324	3,917	0,000	Significant*
t-2	-0,01139645	-0,558	0,580	Not Significant
t-1	0,19367066	0,962	0,341	Not Significant
t+1	0,03777768	9,140	0,000	Significant *
t+2	-0,02143693	-8,081	0,000	Significant *
t+3	-0,03619879	-9,147	0,000	Significant *
*t <sub>table</sub> (0,025;44)	<b>2.01537</b>			

Source: Secondary data processed (2018)

Based on the table 1 that have 4 significant and 2 not significant sample.

**Table .2 The Result Paired Sample T-test Average Abnormal Return (AAR) before and after event**

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	AAR_Before	0,065822484	45	0,4050546732	0,0603819856
	AAR_After	-0,006619347	45	0,0107986118	0,0016097620

Based on table 3 AAR before mean 0.065822484, deviation standard 0. 4050546732 and AAR after mean 0. 006619347, deviation standard 0. 0107986118

**Table3. Paired Samples Test**

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	AAR_Before - AAR_After	0,072442	0,402420	0,059989	-0,048459	0,193342	1,208	44	0,234

$t_{\text{tabel}} = 2.01537$

Source: Secondary data processed (2018)

Based paired sample t test sig ( 2-tailed) 0.234 > 0.05 mean market deaction before and after the declaration Of Presidential Candidate For Vice President In Indonesia Year 2018 has not difference.

**Table 4. Ranks**

		N	Mean Rank	Sum of Ranks
ATVA _AFTER – ATVA _BEFORE	Negative Ranks	13 <sup>a</sup>	7,77	101,00
	Positive Ranks	2 <sup>b</sup>	9,50	19,00
	Ties	30 <sup>c</sup>		
	Total	45		
a. ATVA_AFTER < ATVA_BEFORE				
b. ATVA_AFTER > ATVA_BEFORE				
c. ATVA_AFTER = ATVA_BEFORE				

Based on the table 4 show 45 has ties of 30 sample, 13 positive rank and 2 negative ranks

**DISCUSSION OF TEST RESULTS-T SIGNIFICANCE RETURN**

The results of testing conducted to the significance of Abnormal Return shares during the research period showed that, there is a positive Abnormal Return after 1 day declaration of presidential candidate and vice president. But experiencing negative significance after the President and Vice-President formally enrolled in the KPU in the next period on 13 and 14 August 2018. This can be very likely to happen because the elected presidential candidate does not seem to be direpon either and is not in accordance with investor's expectations. So the negative responded by the market. In fact, two periods before the event of the declaration of presidential candidate and the stock market vice president did not experience an abnormal return.

**Difference between results in different Average Abnormal Return**

The results of the second Abnormal Return (AAR) stasistic test between before and after the declaration of the candidate for the President and the Vice-President 2018 apparently did not indicate a significant difference. The reaction can be seen in the table above indicating that there is no significant difference between Average Abnormal Return (AAR)

before and after the official registration event of the presidential candidate and vice president.

The absence of significant differences between the period before and after the election event of the official elections of the presidential candidate and deputy Oresiden in the KPU, indicating that the information from the event was not able to make stock trading was in Over normal trading. The absence of significant market reactions reflects that market participants are more vigilant and calculates long-term possibilities, so it is not a hurry to do buy and sell stocks. Although researchers do not find significant differences between Average Abnormal Return (AAR) shares before and after the registration event of presidential candidate and vice president officially in the KPU, it has a significant impact on the average The company's overall stock price during the research period.

There is a significant decline resulting from the registration of the presidential candidate and the official vice president in the KPU, especially the decline in the post-presidential candidate and the Vice-President enrolled in the KPU. Market reaction with significant negative occurs in the period T + 2 and T + 3 due to the investor of shock effect, where the

candidate who registered in the elections may not be in accordance with the expectations of investors.

### Difference of Average Trading Volume Activity (ATVA) test result

The test of the Average Trading Volume Activity (ATVA) aims to determine if there is a significant difference between the Average Trading Volume Activity (ATVA) before and after the event of the Declaration and the official registration of the presidential and representative President of the KPU. Testing conducted using the Wilcoxon Signed Rank Test, due to data on the Average Trading Volume Activity (ATVA)

The results of the stasistic test Average Trading Volume Activity (TVA) proved that there was a significant difference between the period before and after the registration of presidential candidate and vice president formally in the KPU. The reaction is shown in the table above. Indicate that there is a significant difference because of the value of sig. Greater than 0.05 or  $0.016 \geq 0.05$ .

It implies that the capital market reaction to a particular event of political events is reviewed from the Average Trading Volume Activity (ATVA) of the shares, tends to vary depending on the type of event, the type of shares studied, Also characteristic of each investor.

In addition, the negative rank is greater than the positive rank which means there is a considerable decline when the registration event of presidential candidate and vice president.

### CONCLUSION

Based on the analysis from the hypothesis test above, researchers can give some conclusions as below:

- The first hypothesis, giving the idea that there is no average difference in abnormal return on the shares of LQ 45. It is estimated that the comparison before the incident in general the influence of information exists but the cause of the influence is not due to the event of the declaration of presidential candidate and prospective vice president in Indonesia year 2018.
- The second hypothesis and the third hypothesis is almost the same because of the AAR data used in this hypothesis testing after the bombing, at H + 3 and H + 4, there is a reaction to the movement of the stock price and of course this gives Strong enough influence for market participants, especially investors, although the reaction is not directly on the day afterward.
- This research is very sensitive to the data and samples used, because the data used is daily in a very short period of time.

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