
Response of LQ45 Stock Market on Indonesia Legislative and Presidential Election Result in 2019

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Abstract

The purpose of this study was to determine the response of LQ45 stock market participants to the legislative and presidential elections and the results of the 2019 presidential election. The data used to determine the response of market participants is to use abnormal return data and trading volume activity from 45 companies listed on LQ45. The test is then calculated using the marked adjusted model method and testing the hypothesis using parametric statistics and analyzed using SPSS. Based on the results of research conducted, it can be concluded that for the legislative and presidential election events, in 2019 there were significant abnormal return differences and for trading volume activity there were no significant differences around the day the event occurred. The second political event, namely the results of the presidential election, the calculation of abnormal returns and trading volume activity around the day of the event was found to be a significant difference in which this event there was a response from the stock market players which means that both hypotheses in this study were accepted in this second political event.

Keywords: *abnormal return; trading volume activity; event study*

Abstrak

Tujuan penelitian ini adalah untuk mengetahui respon pelaku pasar saham LQ45 terhadap pemilu legislatif dan presiden dan hasil pemilu presiden tahun 2019. Data yang digunakan untuk mengetahui respon pelaku pasar menggunakan data *abnormal return* dan *trading volume activity* dari 45 perusahaan yang terdaftar pada LQ45. Data dihitung menggunakan metode *marked adjusted* model dan pengujian hipotesis menggunakan statistik parametrik dan dianalisis menggunakan spss. Berdasarkan hasil penelitian yang dilakukan dapat ditarik kesimpulan bahwa untuk peristiwa pemilu legislatif dan presiden tahun 2019 terdapat perbedaan abnormal return yang signifikan dan untuk trading volume activity tidak terdapat perbedaan yang signifikan pada sekitar hari terjadinya peristiwa. Peristiwa politik kedua yaitu hasil pemilu presiden, perhitungan abnormal return dan trading volume activity pada sekitar hari kejadian ditemukan adanya perbedaan yang signifikan yang dimana peristiwa ini terdapat respon dari para pelaku pasar saham, kedua hipotesis pada penelitian ini diterima pada peristiwa politik kedua.

Kata kunci: *abnormal return; trading volume activity; event study*

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INTRODUCTION

Shares are securities of a company that are traded to the general public in ownership, in which the distribution of profits from the company is distributed to shareholders in the form of dividends. Stocks are one of the economic instruments that are sensitive to internal and external factors, where external factors are things that cannot be controlled by the company. Stock prices can change if there are economic issues, both good and bad information. Information that is spread among the public will affect investors' decisions in investing their funds. When the information is received by all stock market players, they will first interpret and analyze the information as good or bad news and then the stockholders will react according to the news circulating and this will cause a change in stock prices. The method that can be used to see the response of stock market participants to an event that contains economic information is an event study. According to Jogiyanto (2014) Event study is a study that studies the effect of an event on market reactions whose information is published in the form of announcements. The market reaction can be seen through changes in the price of securities using the proxy for abnormal returns and also trading volume activity around the day the announcement is published. Previous research conducted by Chandra (2013) showed that the increase in fuel prices classified as bad news obtained a reaction in the form of a negative response from stock market players resulting in negative abnormal returns.

The next combined graph of share prices is in May 2019 which on May 22 2019 which was the day of the president's announcement for the 2019-2024 period, but on that day it was even used as a protest by the public (demo) who did not accept the results of decisions and commissions general election (KPU). The demo also had an impact on the trading volume of shares and the stock price index which resulted in a drastic decline in the month. The events above will be examined and processed by taking the LQ45 stock price index. A stock price index is a statistical measure of changes in price movements of a group of shares selected based on certain criteria and used as a means of investment objectives. The LQ45 index is an index that measures the price performance of 45 stocks that have high liquidity and large market capitalization and are supported by good corporate fundamentals.

Elections conducted on April 17 2019 and May 22 2019 will be examined and processed statistically inductively by paired sample t-test whether the political events will have information content on the Indonesia Stock Exchange (IDX). Testing using Paired sample t-test will also be used to find out whether the event raises the reaction of stock investors as good news or bad news. Based on the background of the above problems, the researcher took the title: "Response of Stock Market Actors to the legislative and presidential elections and the results of the 2019 Indonesian presidential election". The study will examine the stock price movements that arise due to the event and test the reaction or response of the stock actors using 2 approaches, namely abnormal return, and trading volume activity.

Another previous study was conducted by Ananto (2014) regarding the effect of legislative elections on abnormal return and trading volume of stock activity in the Jakarta Islamic Index in the 2014 legislative elections. The results of his research showed that there were significant changes in stock prices and trading volumes before and after these political events. The data on the Indonesian IDX website shows that the stock price chart in April 2019 showed an increase in share prices from the beginning of the year to April. On April 17, 2019, there was a public party, namely the general election for legislative members and also the president for the period 2019-2024, and seen the movement of stock prices which increased along with issues (news) that were spread among investors.

LITERATURE REVIEW

Jange research results (2017) about the impact of simultaneous local elections in 2015 and 2017. The population is all companies listed on the IDX, with a sample of all companies registered in the banking sector, 36 companies. The results of his research that is the news generated by the event is bad news or bad news, and from the average abnormal return found insignificant results or can be said there is only a slight change, while the average trading volume activity found statistically results which indicates a significant difference in trading volume activity between after and before the event. According to Darmadji and Fakhruddin (2012), the capital market is a market for a variety of long-term financial instruments that can be syndicated, both in the form of debt or own capital. These definitions can be concluded that a capital market is a place or market in which offers, sales, and purchases of securities are issued by companies that have a term of more than one year. Fahmi (2012) defines share as proof of ownership of capital/funds in a company, paper that is listed with nominal value, company name, accompanied by rights and obligations that are explained to each holder, and inventories that are ready for sale, show that the stock is described as a document in the form of proof of ownership of a valuable company, and also in it the written rights and obligations to the owner that can be sold at any time.

According to Fahmi (2012), several conditions and situations determine the price of a stock that will experience fluctuations, such as micro and macroeconomic conditions that exist in a country or in a company that is stable or unstable which can lead to an appraisal of potential investors., company policy in deciding to expand (business expansion), such as opening a branch office (brand office) and sub-branch offices (sub-brand offices), both opened in domestic and abroad. The sudden change of directors which in turn will have an impact on the changing organizational structure of the company and will also change policies within the company. The existence of a board of directors or a company commissioner involved in a crime and the case is in court. The company's performance continues to decline and engagement in each time. Systematic risk, which is a form of risk that occurs as a whole and has contributed to causing companies to get involved. The effects of market psychology were able to suppress the technical conditions of buying and selling shares.

According to Jogiyanto (2014), an event study is a study that studies the effect of an event on a market reaction whose information is published in the form of an announcement. An event study is an observation of stock price movements in the capital market to find out whether there is an abnormal return obtained by shareholders as a result of an event or a certain event. The market reaction can be seen through changes in security prices by using the proxy for abnormal returns and trading volume activity. Abnormal returns are returns that investors receive that are not the same as the returns they expect because of information that can be good or bad news. The formula for knowing abnormal returns is:

$$[(AR)]_{i,t} = R_{i,t} - R_{m,t}$$

With information as follows:

$[(AR)]_{i,t}$ = abnormal return of an i sequence at a certain time (t)

$R_{i,t}$ = return Actually i sequence at a certain time (t)

$R_{m,t}$ = market return of sequence i at certain time (t)

Trading volume activity is the sale of every transaction that occurs in a stock exchange at a particular time and stock and is one of the factors that also influences the stock price movements. The market reaction according to Tandelilin (2010) explains that to see the existence of market reactions

can be seen through the existence of abnormal returns. There is an abnormal return that occurs around the announcement of corporate action information indicating that there is a positive market reaction to information and vice versa if there is no abnormal return that occurs around the announcement of corporate action information indicates that there is a negative market reaction.

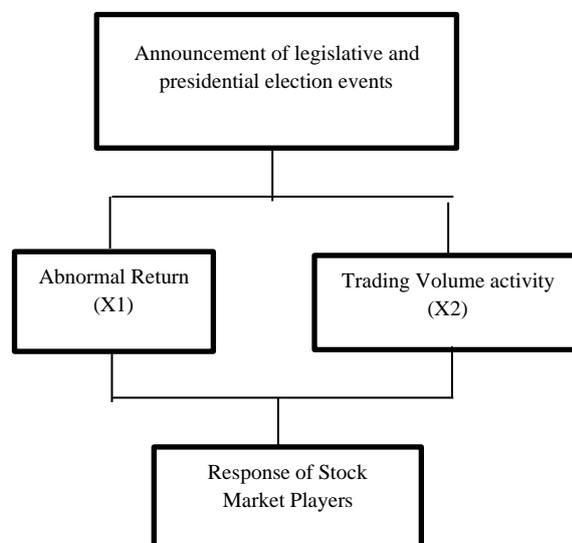


Figure 1: Research Framework

In this research, the dependent variable is the response of stock market players (Y). The independent variables (X) in this study are abnormal return (X1) and Trading Volume Activity (X2). Based on the explanation above, the hypothesis for this research can be made in the following equation:
H1: There are differences in abnormal stock returns before and after the 2019 legislative and presidential elections.

H2: There are differences in trading volume of stock activity before and after the 2019 legislative and presidential elections.

RESEARCH METHOD

This type of research used in this study is comparative research. This study uses this comparative type of research, to determine the difference between abnormal return and trading volume activity that occurs before and after the results of the 2019 legislative and presidential elections. Abnormal return (abnormal return) is the difference between the actual return that occurs with the expected return (return expected by a stock market investor). Trading volume activity (trade volume activity) is the sale of every transaction that occurs in a stock exchange at a certain time of time and is one of the factors that also influences the movement of stock prices. The type of data used in this study is secondary data, which is the daily closing price of shares, on the 5 days before and after the event takes place and also on the day of the event. The data is obtained in the form of a stock price that can be taken on the web. IDX, the closing price report of shares in companies incorporated in the LQ45 index, and other historical reports on the IDX.

The population in this study is companies included in the LQ45 Index, which are 45 companies listed in period 1, namely in February-July 2019. Determination of sampling is using the census method.

This is because everything included in the population is used as a sample. Data collection techniques namely using documentation techniques, namely the process of obtaining data by collecting and recording data that has been published by relevant institutions or agencies such as the Indonesia Stock Exchange. Elections held on April 17, 2019, were set as events for legislative elections, while on May 22 2019 became the date of announcement of the presidential election results for the 2019-2024 period so that these 2 dates were designated as announcement events or t_0 . The event period for the legislative elections is 11 days, 5 days before the event ($t-5$) and 5 days after the event ($t + 5$), while for the presidential announcement period, 11 days are also set, 5 days before the event ($t-5$) and 5 days after the event ($t + 5$).

Normality is the assumption that each variable and all linear combinations of variables are normally distributed. This test is used to test the distribution of data using the Kolmogorov Smirnov test. A data distribution test is also needed to determine the statistical analysis that will be used in hypothesis testing. To determine the normality of the data, the Kolmogorov-Smirnov test can be done, by determining the testing the first hypothesis using criteria: if the probability is <0.05 then the distribution data is not normal, but if the probability is > 0.05 then the data distribution is normal.

If t arithmetic $< t$ table then H_0 is accepted as insignificant difference ie there is no response from Indonesian stock market players. If t arithmetic $> T$ table then H_0 is rejected as a significant difference, that is, there is a response from Indonesian stock market players. Conducting a hypothesis test aims to prove that the hypothesis raised is following the state of the sample or not. The current research hypothesis testing is done by parametric statistical analysis that is paired sample test or one-way t-test because the hypothesis states "there is a positive relationship" which means the form of the relationship has been determined. One-way hypothesis testing in this study uses a level of significance of 0.05 with the number of samples (n) = 45 to make a statistical decision whether the correlation coefficient on the studied variable proves whether there is a relationship between variables X and Y.

RESULT AND DISCUSSION

This research examines two events, namely the first event, namely the legislative and presidential elections in 2019 and the second event is the announcement of the results of presidential elections for the period 2019 to 2024 in which both events will be seen the abnormal return and trading volume activity that occurs around the day of the incident. at that time gave rise to the response of stock market players in Indonesia. Data is processed using parametric statistical data analysis and the following are the results of testing the hypotheses of both events:

Table 1. Difference test t-test table on Abnormal Return data in April 2019

No.	Days	t	Sig. (2-tailed)
1.	D-1 and D+1	-0,859	0,395
2.	D-2 and D+2	-3,379	0,002
3.	D-3 and D+3	-1,572	0,123
4.	D-4 and D+4	3,867	0,000
5.	D-5 and D+5	0,698	0,489

In the different test results above using paired sample test, the results obtained that a significant difference in abnormal return on shares occurred on the 2nd day before the event and the 2nd day after the event because t count on that day is greater than the t table ie a $3,867 > 2,021$ and the probability value is $0,000 < 0.05$. This means that at that time there was a significant positive response between

the political events of the 2019 legislative and presidential elections with the share price. Apart from that day, there were no significant differences both before and after the political events of the legislative and presidential elections with share prices.

Table 2. Different Test of Trading Volume Activity in April 2019

No.	Days	T	Sig. (2-tailed)
1.	D-1 and D+1	1,402	0,168
2.	D-2 and D+2	0,186	0,854
3.	D-3 and D+3	-0.882	0,383
4.	D-4 and D+4	-0,967	0,339
5.	D-5 and D+5	0,730	0,469

In the different test results using the paired sample test above, the results show that there were no significant differences in trading volume activity that occurred around the day of the event on April 17th. That is because there are no data that have t counts greater than t tables and also there is no probability value that is smaller than 0.05 around the day of the event. This means that in the political events it can be concluded that there is no significance from market players who hold off against the 2019 legislative and presidential elections.

Table 3. Difference of Abnormal Return in May 2019

No.	Days	t	Sig. (2-tailed)
1.	D-1 and D+1	-6,629	0,000
2.	D-2 and D+2	-2,339	0,024
3.	D-3 and D+3	-5,083	0,000
4.	D-4 and D+4	2,728	0,009
5.	D-5 and D+5	-1,811	0,077

On the results of the different tests above using paired sample test, the results obtained that a significant difference in abnormal stock returns occurred on the 2nd day before the event and the 2nd day after the event, because t count on that day is greater than the t table is a similar $3,867 > 2,021$ and a probability value of $0,000 < 0.05$. This means that at that time there was a significant positive response between the political events resulting from the decision of the Constitutional Court regarding the results of the presidential election for the 2019-2024 period with the share price. Apart from that day, there were no significant differences both before and after the political events resulting from the decision of the Constitutional Court regarding the presidential election results for 2019-2024.

Table 4. Table of Different Test of Trading Volume Activity in May 2019

No.	Days	t	Sig. (2-tailed)
1.	D-1 and D+1	-0,740	0,463
2.	D-2 and D+2	4,438	0,000
3.	D-3 and D+3	-1,003	0,321
4.	D-4 and D+4	-1,912	0,062
5.	D-5 and D+5	-1,021	0,313

In the different test results above using paired sample test, the results obtained that a significant difference in trading volume of stock activity occurred on the 4th day before the event and the 4th day after the event, because t count on that day is greater than the t table is a $4.438 > 2.021$ and a probability value of $0.000 < 0.05$. This means that at that time there was a significant positive response between

the political events resulting from the decision of the Constitutional Court regarding the results of the presidential election for the 2019-2024 period with the share price. Apart from that day, there were no significant differences both before and after the political events resulting from the decision of the Constitutional Court regarding the presidential election results for the 2019-2024 period. Based on the results of calculations of abnormal returns and trading volume activity that have been carried out, it can be seen that there is a response from the market players in Indonesia whose test results show that in the events of April 2019 abnormal returns showed the results of responses from stock market players but trading volume activity there is no response from stock market players, while for May 2019, namely the announcement of the results of the presidential election for the period 2019 to 2024, the calculation of abnormal returns and trading volume activity shows the results that there are responses from stock market players.

CONCLUSION

Political events of the legislative and presidential elections in 2019 are deemed to have given less response from shareholders in Indonesia, while for the announcement of the presidential election results for the 2019-2024 period they are considered to be able to cause responses from stock market players in Indonesia due to the results of calculations and tests for abnormal data return and trading volume activity that there are significant differences between before and after the occurrence of political events. Information arising from this second political event makes the stock market in Indonesia more sensitive to the information that contains economic and non-economic information.

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