International Journal of Business and Management; Vol. 10, No. 7; 2015
ISSN 1833-3850 E-ISSN 1833-8119
Published by Canadian Center of Science and Education

Impacts of Indonesia's 2014 Presidential Election towards Stock Priceso Indonesia Stock Exchange

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Received: April 23, 2015 Accepted: May 4, 2015 Online Published: June 20, 2015
doi:10.5539/ijbm.v10n7p172 URL: http://dx.doi.org/10.5539/ijbm.v10n7p172

Abstract

This research aims to examine the impacts of Indonesia's 2014 presidential election towards stock prices on Indonesia Stock Exchange. Samples used were the companies included in LQ-45 from February 2014 to July 2014.

This research took abnormal stock return and trading volume activity to be examined. Event study was used as the research model.

The result shows that there is abnormal return for each event during presidential election. However, there is no significant difference before and after the event for both abnormal return and trading volume activity.

Keywords: abnormal return, trading volume activity, expected return, event study

1. Introduction

The year 2014 is the year of politics for Indonesia. In this year, the nation was filled with many political events. The elections that consisted of legislative election and presidential election occurred in 2014. The 2014 election was not going that well. The legislative election that did not get dominant political party became the starting point of the commotion of Indonesia's election. The presidential election was only participated by two candidates. The first candidate was Prabowo Subianto and Hatta Rajasa, while the second candidate was Joko Widodo and Jusuf Kala. This big event has divided the nation and it ended up with the creation of Koalisi Merah Putih (KMP) and Koalisi Indonesia Hebat (KIH).

The appearance of Joko Widodo or who is usually known as Jokowi as the president of Indonesia was indeed phenomenal. With the provision of achievement as Solo's mayor and Jakarta's governor, Jokowi mustered up courage to participate in the presidential election. The civilian background and honesty of Jokowi had created hopes for Indonesians to improve and create better future for the nation.

The system of election in Indonesia had made it possible for coalition among existing political parties. The excessive campaign spirit and the existence of black campaign had created a very small gap between the votes collected for both candidates. Even though the second candidate, Jokowi and Jusuf Kalla, won the election, the victory was gained with an uphill struggle. The nation's disunity into Koalisi Merah Putih (KMP) and Koalisi Indonesia Hebat (KIH) was still left after the victory.

This rupture had spread into the economy of Indonesia. The ups and downs of the events were also followed by the ups and downs in economy, both for the exchange rate and stock prices. Although this democracy party has over and won by the second candidate, Joko Widodo and Jusuf Kalla, the impacts of this rupture still existed until the next few months. Without dominant candidate in this presidential election, the events occurred were mostly followed by surprises. Every event followed by this kind of shocks on efficient market can be said as the events that contain information (Fama, 1970).

Political events mainly create uncertainty and these uncertain situations are unfavorable for investors. Debates still exist among researchers on whether or not political events have impacts on stock exchange especially the stock prices. The research conducted by Cutler et al. (1989) provided that the political factors do not affect stock prices in America that much. This study had been supported by researches done by Lin and Yi (2005), Chen et al. (2005), and Cheian et al. (2013). On the other hand, the research done by Kim and Mei (1994) captured the stock movement in Hong Kong that was tightly related with existing political events. This result was supported by research conducted by Chan and Wei (1996), Kim and Mei (2001), Bilson et al. (2002), Ma et al. (2003), Zach (2003), Mei and Limim (2004), Beaulieu et al. (2005), Goriaev and Konstantin (2007), Wang et al. (2008), Clack et al. (2008), Dangol (2008), Khalid and Gulasekaran (2010), and Wang et al. (2013).

Since the 1998 political reformation in Indonesia which is marked by the collapse of new order era, the elections in Indonesia have been viewed as very democratic. Democratic elections usually create surprises. The political events in Indonesia have always given different kinds of impacts towards the economy especially the stock exchange. The research conducted by Lamasigi (2002) results in the existence of significant impacts of change of Indonesia's president in 2001 on stock exchange. The result was supported by Anwar (2004) and Sirait et al. (2012). On the other hand, study done by Luhur (2010) showed the absence of significant impacts on stock prices before and after the 2009 elections. It was supported by research done by Trisnawati (2011).

Different results were obtained from the studies above about the impacts of political events towards stock prices. Having regard of these differences, it is a need to reinvestigate the existence of impacts of 2014 presidential elections on stock prices in the stock exchange in Indonesia.

2. Literature Review

Maurice Kendall in 1953 mentioned that the movement of stock prices will always follow random numbers and this concept was known as random walk theory (Brealey et al., 2008). Random walk theory states that future stock prices movement cannot be predicted with past data. From this theory, Fama came out with efficient market hypothesis in 1970. The market is said to be efficient if there is no investor that can earn abnormal return in long term by using the existing trade mechanism. It means that the stock prices reflect the information available in the market. Market will quickly react based on the existing information and will readjust to reach the new equilibrium price. This kind of market can be said to be efficient.

Fama (1970) came out with three forms of market efficiency which are:

1). Weak Form

Market is said to be efficient in weak form if the security prices fully reflect past information. This kind of market enables the investors to obtain abnormal return in a longer term.

2). Semi Strong Form

The stock prices of companies in semi strong form efficient market reflect all the public information. It means that information of financial statements and companies' activities that go public can be considered by investors in buying stocks. However, investors do not have full access to unpublished information (private information). In this form of market, there will be no individual or institutional investors that can use public information to earn abnormal return in long term.

3). Strong Form

A market is efficient in a strong form if the stock prices fully reflect all existing information including private information. It means that both individual and institutional investors can fully access companies' information regarding stock prices. In this form of market, neither individual nor institutional investors can earn abnormal return with access to private information.

Earning abnormal return always becomes the aim of every investor especially short term investors. It makes researchers to study the causes of abnormal return. Torrecilas and Jareno (2013) mentioned the existence of relationship between inflation with stock return. Even though in the short term the news about inflation tends to get negative reactions, in long term it will get positive reactions. However, there are many researchers believe that stock prices are not only affected by the economy. Political factor is believed to influence the stock prices. Indeed, there is research conducted by Cutler et al. (1989) about the impacts of political factors in America towards stock prices. The result showed that political factor does not have big impact on changes in stock prices. This research was supported by study done by Lin and Yi (2005) on Nikkei 225 from November 9th, 1979 to April 5th, 2005. The result indicated that the transition effect of ruling party is not a serious factor that affects the return movement and volatility of stock prices on Nikkei 225. Therefore, political events like change of Japan's prime minister did not affect the Japanese stock that much. Similar thing was also studied by Cheian et al. (2013). The study was about the 12th election in Malaysia and abnormal stock return was not found.

Chen et al. (2005) did a research about the impacts of political events in Taiwan on the stock performance. Every political event indeed showed the existence of abnormal return. However, a surprising result was obtained after analysis using regression was done. It turned out that the market reaction towards political events in Taiwan did not show a significant result.

A contradictory result was obtained by Wang et al. (2008) that examined the effect of election and political changes in major democratic countries. The samples of countries used were United States, United Kingdom, Japan, and France for the period of November 9th, 1979 to January 19th, 2001. The result indicated that political condition creates uncertainty. Disagreement and conflict in the congress became negative sentiment for the market. Similar study was also done by Wang et al. (2013) on Dow Jones Indices from 2004 to 2012. The result showed that news can create sentiment on the stock prices. The study conducted by Beaulieu et al. (2005) also gave similar result. The Quebec referendum on September 30th, 1995 has created uncertainty which will affect the stock price of Quebec's companies.

Research on emerging market was also done by many financial investigators. Kim and Mei (1994) examined the stock movement on Hong Kong stock exchange (Hang Seng) and its relation to political events. The result indicated that political development gives significant impact on changes in stock price. This research was also supported by Chan and Wei (1996) and Kim and Mei (2001) in their studies on Hong Kong stock exchange.

Mei and Limin (2004) investigated the impacts of political instability on financial crisis in emerging market. Samples used were the nine cases of financial crisis which were Turki and Venezuela in 1994, Argentina and Mexico in 1995, Indonesia, Korea, Malaysia, Philippine and Thailand in 1997. Research result showed that eight out of nine financial crisis happened during election and interregnum. By using probit and switching regression analysis, significant relationship was found between political election and financial crisis. This research concluded that political uncertainty especially election and interregnum become the main cause of financial crisis in emerging market. Ma et al. (2003) used the bloody incident at Tiananmen Square to test the impact of this unexpected political event on the stock prices of American companies that did joint venture in China. The result indicated the existence of significant influence of this political incident on stock prices. This research was also supported by studies conducted by Bilson et al. (2002), Zach (2003), Goriaev and Konstantin (2007), Clark et al. (2008), Dangol (2008), and Khalid and Gulasekaran (2010).

Different result was also obtained by researches done in Indonesia. Lamasigi (2002) investigated the impact of Indonesia's presidential change in 2001 on stock prices in Indonesia. The samples were the stocks of LQ 45's companies. The result obtained indicated the presence of significant impact of this political event on stock prices in Indonesia. Similar result was gained by Anwar (2004) who studied Indonesia's election on April 5th, 2004. The same goes to the study by Sirait et al. (2012) on the change of minister of finance in 2010 where this political event also gave significant information on stock price changes. On the other hand, research done by Luhur (2010) and Trisnawati (2011) showed insignificant result of the Indonesia's election impact on stock prices.

Having regard with the different results obtained by studies conducted in both Indonesia and outside Indonesia, it is necessary to reinvestigate the change of Indonesian president and vice president in 2014.

3. Hypothesis

1) Based on the explanation above, several hypotheses can be drawn for this research including:

2) There are abnormal returns during Indonesia's presidential election period which includes the election on July 9th, 2014, the announcement of election result on July 22nd, 2014, constitutional decision on electoral disputes on August 21st, 2014, and inauguration of president and vice president on October 20th, 2014.

3) There are differences in abnormal returns before and after the presidential election on July 9th, 2014, announcement of election result on July 22nd, 2014, constitutional decision on electoral disputes on August 21st, 2014, and inauguration of president and vice president on October 20th, 2014.

4) There are differences in trading volume activity of stocks before and after the presidential election on July 9th, 2014, announcement of election result on July 22nd, 2014, constitutional decision on electoral disputes on August 21st, 2014, and inauguration of president and vice president on October 20th, 2014.

4. Research Method

4.1 Population and Sample

Population used in this research was all the companies listed in Indonesia Stock Exchange. While the sample taken was the companies listed on LQ-45 from February 2014 to July 2014. This period was the period where Indonesia's presidential election took place. There were 45 companies listed on LQ-45 which were taken as the sample. These 45 companies were taken as the 45 best companies that represented all the existing companies from all sectors. Besides, based on the characteristic of LQ-45's companies, the companies listed were all liquid where the market capitalization for all the LQ-45 companies reached 74.53% from all the market capitalization of all companies in Indonesia Stock Exchange. The sectors that are included in this research are as follows:

Table 1. Research sample

NO	SECTOR	Number of Issuers	%
1	Agriculture	2	4,44
2	Mining	4	8,89
3	Basic and Chemical Industry	4	8,89
4	Various Industries	1	2,22
5	Consumer Goods Industry	5	11,11
6	Property and Real Estate	12	26,67
7	Infrastructure, Utility and Transportation	6	13,33
8	Finance	5	11,11
9	Trade, Service and Investment	6	13,33
Total		**45**	**100,00**

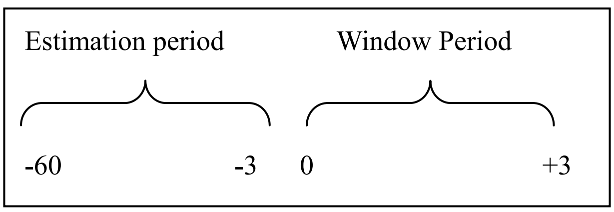
4.2 Type and Source of Data

The type of data used was secondary data which was the data of companies' stocks listed on LQ-45 on Indonesia Stock Exchange.

The source of the data was from the records of LQ-45 companies' stock price movement on Indonesia Stock Exchange which were obtained from www.idx.co.id and www.finance.yahoo.com that covered the highest price, lowest price and closing price.

4.3 Research Period

For event study, research period was divided into two, which are window period and estimation period. The window period and estimation period for this research are as follows:



The picture above shows that:

1) Estimation period is started from day -3 to day -60 which was 60 days before the event.

2) Event day is determined to consist of four events which are presidential election on July 9th, 2014, the announcement of presidential election on July 22nd, 2014, constitutional decision on electoral disputes on August 21st, 2014, and inauguration of president and vice president on October 20th, 2014.

3) Event period are 3 days before and after the event. This length of period was used to portray the actual investors' reaction. If the time used is too long, there might be influences from other events that affect this research. By using only 3 days before and after the event, it was expected that the research would not be influenced by other events like stock split, dividend announcement, or other international events.

4.4 Hypothesis Testing

4.4.1 Hypothesis I

Hypothesis I testing was aimed to examine the existence of abnormal return. The formula used is as follows (Chandra, 2013):

4.4.1.1 Actual Return

$$R_{it} = \frac{P_t - P_{t-1}}{P_{t-1}}$$

R_{it} = individual return of stock i at period t;

P_t = closing price at period t;

P_{t-1} = closing price at period t-1;

4.4.1.2 Market Return

$$R_{mt} = \frac{IHSG_t - IHSG_{t-1}}{IHSG_{t-1}}$$

R_{mt} = expected return of stock i pada hari ke t;

$IHSG_t$ = stock price index at day t;

$IHSG_{t-1}$ = stock price index at the previous day;

4.4.1.3 Expected Return

$$E(R_{it}) = \alpha_i + \beta_i.R_{mt}$$

$E(R_{it})$ = expected return for stock i at period t;

R_{mt} = market return at period t;

Coefficient α and β are obtained from the calculation of time series regression equation between stock return (R_{it}) and market return (R_m).

4.4.1.4 Abnormal Return

$$AR_{it} = R_{it} - E(R_{it})$$

AR_{it} = abnormal return of stock i at period t;

R_{it} = actual return of stock i at period t;

$E(R_{it})$ = expected return of stock i at period t;

4.4.1.5 Average Abnormal Return

$$\overline{AR}_{it} = \frac{\sum_{i=1}^{n} AR_{it}}{n}$$

$\overline{AR}_{it}$ n= average abnormal return of stock i at period t;

AR_{it} = abnormal return of stock i at period t;

N = number of samples;

4.4.1.6 Cumulative Average Abnormal Return

$$CAAR = \sum \overline{AR}_{it}$$

$CAAR$ = cumulative average abnormal return.

$\sum \overline{AR}_{it}$ = total average abnormal return of stock i at period t.

4.4.1.7 Standard Deviation

$$\sigma_{ie} = \sqrt{\frac{\sum\left(AR_{it} - \overline{AR}_{it}\right)^2}{n-1}}$$

σ_{ie} = Standard deviation of security i;

AR_{it} = abnormal return of stock i at period t;

$\overline{AR}_{it}$ = average abnormal return of stock i at period t;

n = number of samples;

4.4.1.8 Standardized Abnormal Return

$$SAR_{nt} = \frac{AR_{it}}{\sigma_{ie}}$$

SAR_{nt} = standardized abnormal return of stock at period t;

AR_{it} = abnormal return of stock i at period t;

σ_{ie} = standard deviation of security i;

4.4.1.9 One Sample t-Test

$$t = \frac{\sum SAR_{nt}}{\sqrt{n}}$$

$\sum SAR_{nt}$ = total standardized abnormal return of stock at period t;

n = number of samples;

4.2 Hypothesis II

Hypothesis II is related with the test of differences between the stock return before and after the event. The formula used is as follows (Chandra, 2013):

4.2.1 Average Abnormal Return

Before the event.

$$\overline{AR}_{before} = \frac{\sum_{t=-5}^{t=-1} AR_{before}}{n}$$

After the event.

$$\overline{AR}_{after} = \frac{\sum_{t=+5}^{t=+1} AR_{after}}{n}$$

4.2.2 Standard Deviation

Before the event.

$$\sigma_{before} = \sqrt{\frac{\sum_{t=-5}^{t=-1}\left(AR_{before} - \overline{AR}_{before}\right)^2}{(n-1)}}$$

After the event.

$$\sigma_{after} = \sqrt{\frac{\sum_{t=+5}^{t=+1}\left(AR_{after} - \overline{AR}_{after}\right)^2}{(n-1)}}$$

Statistic Test (with α =5%).

$$t = \frac{\overline{AR}_{after} - \overline{AR}_{before}}{\frac{\sigma_{after}^{2}}{n} + \frac{\sigma_{before}^{2}}{n}}$$

4.3 Hypothesis III

Hypothesis III is related with the test of stock volume difference between the stock before and after the presidential election. The formula used is as follows (Chandra, 2013):

4.3.1 Trading Volume Activity (TVA)

$$TVA = \frac{Stock\ trading\ volume\ at\ period\ t}{Number\ of\ outstandin\,g\ shares\ at\ period\ t}$$

4.3.2 Average Trading Volume Activity

$$\overline{TVA} = \frac{\sum_{i=1}^{n} TVA}{n}$$

$\overline{TVA}$ = average trading volume activity of stock at period t.

TVA = trading volume activity of stock i at period t.

n = number of samples.

4.3.3 Standard Deviation

$$\sigma_{ie} = \sqrt{\frac{\sum\left(TVA - \overline{TVA}\right)^2}{n-1}}$$

σ_{ie} = standard deviation of security i.

TVA = trading volume activity of stock i at period t.

$\overline{TVA}$ = average trading volume activity of stock i at period t.

n = time period.

4.3.4 Average TVA

Before the event.

$$\overline{TVA}_{before} = \frac{\sum_{t=-5}^{t=-1} TVA_{before}}{n}$$

After the event.

$$\overline{TVA}_{after} = \frac{\sum_{t=+5}^{t=+1} TVA_{after}}{n}$$

4.3.5 Standard Deviation

Before the event.

$$\sigma_{before} = \sqrt{\frac{\sum_{t=-5}^{t=-1}\left(TVA_{before} - \overline{TVA}_{before}\right)^2}{(n-1)}}$$

After the event.

$$\sigma_{after} = \sqrt{\frac{\sum_{t=+5}^{t=+1}\left(TVA_{after} - TVA_{after}\right)^2}{(n-1)}}$$

Statistic Test (with α =5%).

$$t = \frac{\overline{TVA}_{after} - \overline{TVA}_{before}}{\frac{\sigma_{after}^2}{n} + \frac{\sigma_{before}^2}{n}}$$

5. Analysis Results

5.1 Hypothesis I

Hypothesis I states that there are abnormal returns during Indonesia's presidential election period which includes the election on July 9th, 2014, the announcement of election result on July 22nd, 2014, constitutional decision on electoral disputes on August 21st, 2014, and inauguration of president and vice president on October 20th, 2014. From the analysis results, it was determined that:

Table 2. Abnormal return test

Event	AAR	Sig.	Result
Presidential Election on July 9th, 2014			
Day – 3	-0.003	0.115	Not Significant
Day – 2	-0.019	0.000	Significant
Day – 1	0.016	0.000	Significant
Day + 1	0.004	0.148	Not Significant
Day + 2	0.029	0.000	Significant
Day + 3	0.008	0.046	Significant
Announcement of Election Result on July 22nd, 2014			
Day – 3	-0.007	0.210	Not Significant
Day – 2	0.000	0.940	Not Significant
Day – 1	0.003	0.291	Not Significant
Day + 1	0.013	0.000	Significant
Day + 2	0.004	0.060	Not Significant
Day + 3	-0.015	0.000	Significant
Constitutional Court Decision on August 21st, 2014			
Day – 3	-0.015	0.000	Significant
Day – 2	-0.007	0.001	Significant
Day – 1	0.004	0.023	Significant
Day + 1	0.001	0.395	Not Significant
Day + 2	0.003	0.542	Not Significant
Day + 3	0.002	0.306	Not Significant
The Inauguration of the President & Vice President on October 22nd, 2014			
Day – 3	0.007	0.024	Significant
Day – 2	0.011	0.000	Significant
Day – 1	0.000	0.897	Not Significant
Day + 1	0.021	0.000	Significant
Day + 2	0.003	0.561	Not Significant
Day + 3	0.000	0.756	Not Significant

Abnormal returns were found during the presidential election on July 9th, 2014. Abnormal returns existed on day -2, -1, +2, and +3. On day -2, there was negative abnormal return. This condition was the impact of commotion of democracy that was accompanied by the rise of black campaign which caused uncertainty. All these things were bad news for the investors. It corresponded with the research conducted by Wang et al. (2013) who stated that news can affect the stock prices. Good news would give positive sentiment and increase the stock prices. While negative news would give negative sentiment that decreased the stock prices. On day +1, investors would wait and see over the victory claim of both parties. Then, on day +2 and +3, investors gave positive response over the relatively safe situation during the election period.

The victory announcement of the election that was done by General Elections Commissions (KPU) became the peak of the election. Investors did not overreact before the announcement. It was only on day +1 and +3 investors gave responses. The victory announcement of Joko Widodo and Jusuf Kala which was done on July 22nd, 2014 gave positive sentiment for the investors on day +1. Unfortunately, the rejection of the election by Prabowo Subianto and Hatta Rajasa has given negative impression towards the investors. Investors worried that political uncertainties wiould exist in the future. That was why on day +3, there was negative abnormal return. The rejection of election result by Prabowo Subianto and Hatta Rajasa ended up in an accusation to the constitutional court.

The announcement from constitutional court's session on August 2014 determined the victory of Joko Widodo and Jusuf Kala. Investors gave negative response towards the situation of the session that heated up on day -3 and day -2. Investors gave positive response on day -1. After the result was announced on August 21, 2014, investors did not give any response and chose to wait and see for the situation. The rejection towards constitutional court's decision made investors worried.

The president and vice president of Indonesia were inaugurated on October 22nd, 2014. There were positive abnormal returns on day -3, -2, and +1. Meeting between Joko Widodo and Aburizal Bakri on October 14th, 2014 and between Joko Widodo and his rival, Prabowo Subianto, on October 17th, 2014 have given positive sentiment to the investors. Conducive condition and glorious and safe situation during the inauguration have created trusts among investors towards Indonesia's better future. However, on day +2 and +3, investors chose to wait and see again for the inauguration of the ministers who would help the president and vice president in their reign.

Generally, every event during this 2014 presidential election would create abnormal returns. The highest frequency of abnormal returns occurance was on the presidential election on July 9th, 2014 which was 4 days. While during the announcement of the election result by the general election commissions on July 22nd, 2014, abnormal returns only occured in 2 days. The occurance of abnormal returns during this presidential election corresponded with the research done by Chen et al. (2005). The political events in Taiwan also created abnormal returns as in Indonesia.

The appearance of political uncertainty during the 2014 presidential election has made the stock price fluctuate and hence, created abnormal returns. This corresponded with the research done by Kim and Mei (1994), Chan and Wei (1996) , Kim and Mei (2001), Bilson et al. (2002), Zach (2003), Ma et al. (2003), Mei and Limin (2004), Beaulieu et al. (2005), Goriaev & Konstantin (2007), Clark et al. (2008), Wang et al. (2008), Dangol (2008), and Khalid and Gulasekaran (2010). On the other hand, it contradicted with the study conducted by Cutler et al. (1989), Lin and Yi (2005), and Cheian et al. (2013). Their research results in U.S.A., Japan, and Malaysia indicated that political factors on these three countries did not affect the changes in the stock prices that much.

5.2 Hypothesis II

Hypothesis II stated that differences in abnormal returns exist before and after the presidential election on July 9th, 2014, announcement of election result on July 22nd, 2014, constitutional decision on electoral disputes on August 21st, 2014, and inauguration of president and vice president on October 20th, 2014. The result of the analysis was as follows:

Table 3. Hypothesis testing result 2

Event	t - Stat	Sig.	Result
Presidential Election on July 9th, 2014	-0.89642	0.46463	Not Significant
Announcement of the President & Vice President on July 22nd, 2014	-0.37796	0.74180	Not Significant
Constitutional Court Decision on August 21st, 2014	-3.06504	0.09199	Not Significant
The Inauguration of the President & Vice President on October 22nd, 2014	-0.21043	0.85282	Not Significant

5.3 Hypothesis III

Hypothesis III stated that there were differences of stocks' trading volume activity before and after the presidential election on July 9th, 2014, announcement of election result on July 22nd, 2014, constitutional decision on electoral disputes on August 21st, 2014, and inauguration of president and vice president on October

20th, 2014. The result of analysis was as follows:

Table 4. Hypothesis testing result 3 (TVA)

Event	t - Stat	Sig.	Result
Presidential Election on July 9th, 2014	1.11208	0.38186	Not Significant
Announcement of the President & Vice President on July 22nd, 2014	-0.22404	0.84353	Not Significant
Constitutional Court Decision on August 21st, 2014	-0.30590	0.78859	Not Significant
The Inauguration of the President & Vice President on October 22nd, 2014	-2.21078	0.15761	Not Significant

From the test of trading volume activity, the result was not significant. It indicated that although there were abnormal returns for every event during the 2014 presidential election, there was no difference in trading volume of stock unit before and after the event. It corresponded with the result obtained on hypothesis II where difference of abnormal return before and after the presidential election was not found.

Similar results were also obtained by Chen et al. (2005), Luhur (2010), and Trisnawati (2011). On the other hand, this research did not support the studies done by Lamasigi (2002), Anwar (2004), and Sirait et al. (2012).

6. Conclusion and Recommendations

The research result showed that during the 2014 presidential election, there was bad news in several days which caused the existence of negative abnormal returns. However, there were also a few other days that showed the occurrence of positive response which produced positive abnormal return. Many of these were caused by the commotion of politics during the election which is portrayed by Figure 1.

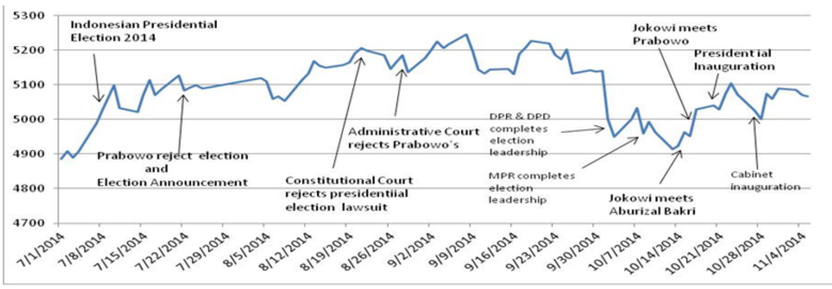


Figure 1. IHSG during the presidential election

Figure 1 shows the stock price fluctuation during the 2014 presidential election. Every political event during the election, announcement of the result which was accompanied with the rejection of election's process by one of the president's candidate, constitutional court's decision, the commotion during the selection of People Representative Council and House of Commons, the meeting between Jokowi as the winner of the election with Aburizal Bakri, the meeting between Jokowi and Prabowo Subianto, and the inauguration of the president and the vice president have created fluctuation which was reflected in the changes on JCI and significant test result of abnormal return. However, this fluctuation have occurred before and after the event and it made no significant difference on the result of different test on the abnormal return before and after the event. Therefore, the absence of difference was not caused by the absence of abnormal return. Conversely, abnormal returns have occurred before and after the event.

The aim of investors in buying stock on the stock exchange is to get dividend and capital gain. However, most investors will pursue huge capital gain. A huge capital gain can be obtained by the investors if the market is not efficient (weak form). By looking at the abnormal return that tended to be longer (until day +3) during the presidential election on July 9th, 2014 and became shorter (only day +1) occasionally like during the inauguration of the president and vice president on October 22nd, 2014, it was concluded that the stock exchange in Indonesia was still in semi strong form. Hence, investors needed to be more selective in choosing valuable information to earn excess return. This presidential election should be good news that could give positive abnormal return. However, political fluctuation and commotion due to Indonesia's immaturity in democracy have created political uncertainty. This political uncertainty gave negative sentiment to the investors and hence, produced negative abnormal return. Nevertheless, both the abnormal return given and the stock trading volume activity (TVA) before and after the announcement of the increase in fuel oil price did not make huge difference. Consequently, if investors really aimed for huge capital gain, the information of this 2014 presidential election would not help them that much.

This research only took 6 days which were 3 days before and after the event. The purpose of using this short amount of time was to minimize the influence of other factors on the abnormal return. However, using a shorter time became a limitation for this research. It was recommended for the next research to add the research period in examining the consistency of this research.

This research only assessed the impacts of presidential election on stock prices on Indonesia Stock Exchange and did not take into account other influences such as the announcement of improvement for American economy and the possibility for U.S.A. to increase the interest rate and Indonesia's macro economy condition. Therefore, it was necessary to do more research on factors other than politics that could affect the stock prices.

This research emphasizes more on stock price movements. Research on investor perception towards presidential election and the stock price was not done in this study. Therefore, it is necessary for the next researcher to conduct surveys on investors regarding their perceptions towards the presidential election.

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