

R

THE IMPACT OF DOMESTIC POLITICAL EVENTS
ON AN EMERGING STOCK MARKET:
THE CASE OF INDONESIA

HERRY SUHARDJO

UNIVERSITY OF MALAYA

2001

Perpustakaan Universiti Malaya



A511210290

DEDICATION

This thesis is dedicated to my family and Yenli Alman.

ACKNOWLEDGEMENTS

I would like to express my profound gratitude to my supervisor: Izlin Ismail for her support, guidance and encouragement throughout the course of my research. She has been a great source of inspiration and force that kept this project moving to its successful end.

My sincere gratitude also goes to Prof. Jack Mutti and Prof. Bernard Yeung, of Grinnell College and New York University, respectively, for their advice on this project. I am also grateful to Dr. M. Fazilah Abdul Samad, who provided me with valuable comments.

I am also obligated to thank my friend, Sarjo Jah, for his continuous help in preparing this project. I would also like to thank to my other friends, Mustafa, Burkhon and Rachel, who provided moral support to me. I will always remember our days together at the University of Malaya.

Last but not the least, I acknowledge the patience, support and encouragement I received from my family and Yenli Alman.

TABLE OF CONTENTS

DEDICATION	ii
ACKNOWLEDGEMENTS	iii
TABLE OF CONTENTS	iv
LIST OF FIGURES AND TABLES	vi
ABSTRACT	vii
 Chapter 1: INTRODUCTION	 1
1.1 Background of the Study	1
1.2 Research Question	3
1.3 Objectives of the Study	3
1.4 Scope of the Study	3
1.5 Limitation of the Study	4
 Chapter 2: LITERATURE REVIEW	 5
2.1 Market Efficiency	5
2.2 What is Event Study?	5
2.3 Previous Studies	6
 Chapter 3: RESEARCH METHODOLOGY	 11
3.1 Introduction	11
3.2 Events Identification	12
3.3 Data	14
3.4 Hypotheses	15
3.5 Methodology	15
 Chapter 4: RESULTS ANALYSIS	 22
4.1 Hamzah Haz's Resignation	22
4.2 Clash between Christians and Muslims in Buru, Maluku	24
4.3 General Wiranto's Removal	25
4.4 Two Economic Ministers' Removal	27
4.5 Church Bombing in Medan	29
4.6 Violence in Halmahera, North Maluku	32
4.7 Explosion in the Attorney General's Office	33
4.8 Four Prominent Leaders' Meeting	34
4.9 New Cabinet Announcement	36
4.10 Riot in Pontianak	38
4.11 Clash between Dayaks and Madurese Settlers	39
4.12 Summary of the Analysis	40

4.13 Why An Event is not An Event?..... 42

Chapter 5: CONCLUDING REMARKS 46

5.1 Summary and Implication 46

5.2 Suggestion for Future Research 48

BIBLIOGRAPHY 49

APPENDICES 52

APPENDIX A 53

APPENDIX B 109

APPENDIX C 156

APPENDIX D 163

LIST OF FIGURES AND TABLES

FIGURE

Figure 3.1	Theoretical Framework	11
Figure 4.1	Cumulative Abnormal Return for the Overall Industries And the Composite Index	31
Figure 4.2	Cumulative Abnormal Return for the Overall Industries And the Composite Index	37

TABLE

Table 4.1	Responses Given by the Overall Industries and the Composite Index	41
Table 4.2	Difference of Two Means	42
Table 4.3	A Comparison of Standard Deviations of Daily Market Returns	44

ABSTRACT

This paper provides information regarding the effects of domestic political events on the Jakarta Stock Exchange. An event methodology is employed, and the results suggest that the market as a whole and the overall industries do not seem to respond to all political events. The results also indicate that there is no difference between the means of abnormal returns before and after the event. In general, the market as a whole and the overall industries behave in a similar manner.

The change in signs (positive-negative) of abnormal returns suggests that the political condition in Indonesia was still unstable.

The results suggest that some events observed are likely to be less important than the others due to so many random shocks to the system in the post 1997 crisis period. The findings also suggest that there is a change in the way the market reacts to such information.