

Chapter 5

CONCLUDING REMARKS

5.1 Summary and Implication

This chapter presents a summary of the results of this study, and a discussion of those results. The summary and discussion will reflect the two objectives of the study.

Political issues are common in Indonesia. During and after the 1997 economic crisis, Indonesia had been in political turbulences. Even until today, Indonesia political condition is still considered unstable. Social clashes, riots, bomb attacks, and so on had created political unrests in the country. In addition, President Abdurrahman Wahid's style of leadership also accounts for parts of the problems. Since he was first elected as president, there had been several cases of cabinet reshuffles.

In this study, mixed responses have been obtained. According to the results of the analysis, there were only two cases where the industries as a whole and the composite index responded to the political events on the day of the event. In the case of event 5 (the church bombing), for example, a significant abnormal return of -4.82 , which was significant at a level of 5%, was obtained on the day of the incident for the industries as a whole. However, the composite index experienced an abnormal return of -4.06% , which was significant at 2.5%. Similarly, in the case of the cabinet announcement, the industries as a whole experienced a significant abnormal return of -3.91% at a level of 5%, while a return of -3.98 in the composite index was significant at 2.5%.

In the case of the removal of the two economic ministers, the industries as a whole and the composite index behaved in a similar manner, that is, significant abnormal returns were obtained five days prior to the announcement. These returns were significant at a level of 2.5%. It seems that the information was already anticipated before it was released to the public. In fact, the rumors about the removal had been circulating among the public few days before the announcement.

The industries as a whole and the composite index were different in three cases. In the case of events 7 and 11, no significant abnormal return was found in the event period for the industries as a whole, whereas the composite index experienced significant abnormal returns before the events occurred. Similarly, in the case of event 3, the industries as a whole did not experience a significant abnormal return during the event period, while a significant abnormal return of -3.63% occurred in the composite index three days after the announcement.

As a result of the mixed responses obtained in this study, no conclusive statement can be made regarding the semi-strong market efficiency of the Jakarta Stock Exchange. A market is a semi-strong efficient if its price reflects all publicly available information.

The change in signs (positive-negative) of the abnormal returns suggests that the political environment in the country was still unstable. In fact, the dispersion in the market performance had increased from about 0.97 percent during the period of 1995-1996 to about 2.65 percent in the 1998-1999 period.

The industries as a whole and the composite index did not respond at all to the other political events. We suggest that those events are likely to be less important than the other events, which led to so many random shocks to the system in the post 1997 period. To look further on this matter, we found that the volatility in the 1998 period was larger than the volatility in the 1999 and 2000 periods. This supports the above assertion that the events of the 1999 and 2000 periods may be less important than the events of the 1998 period. Moreover, the magnitudes of the events in the 1999 and 2000 periods were smaller than the magnitudes of those of the 1998 period.

We also suggest the possibility of a change in the way the people of Indonesia respond to political events. Compared to the early 1998 period, the way the people react to political events has changed a lot in real life. In fact, the people have considered political issues as a common phenomenon. In other words, political issues have become parts of the people's life in the country.

5.2 Suggestion for Future Research

The explanation of different responses of the individual industries to particular political events is beyond the scope of this paper, that is, why certain industries reacted differently to certain political events compared to the others. We, therefore, encourage for further investigation of the behaviour of individual industries to such events. Furthermore, this type of study should not only be restricted to Indonesia in the period April 1999 through February 2001.