REACTION OF SHARE PRICES IN THE INDONESIAN CAPITAL MARKET TO EVENT OF LAWSUIT AGAINST THE RESULT OF THE INDONESIAN PREDENTIAL ELECTION IN 2019

Taufik[1*], Marlina Widiyanti[2], Samadi W Bakar[3], Suhartini Karim[4]
Universitas Sriwijaya[1,2,3,4]
taufik@fe.unsri.ac.id[1], marlinawidiyanti@fe.unsri.ac.id[2], samadi@fe.unsri.ac.id[3],*
suhartini@fe.unsri.ac.id[4]

Abstract

This study aimed to determine whether there was a difference in abnormal return and cumulative abnormal return before and after the lawsuit against the result of the 2019 Indonesian presidential election. The population was 536 firms in Indonesia stock exchange. The sampling technique used was census sampling. Analysis of the data used was Wilcoxon Signed Ranks Test. The results showed that there were differences in abnormal return and cumulative abnormal return before and after the lawsuit against the results of the Indonesian presidential election. For further research, it was recommended to use other methods in determining the expected return and abnormal return.

Keywords: *Expected Return, Abnormal return, Indonesian presidential election*

1. INTRODUCTION

The stock price in a capital market will react inseparably due to the information of economic and non-economic received by investors. Samsul (2006) said that one of the events that affects the stock price in the capital market is political event. One of event taking place in 2019 was presidential election. There were two pairs of presidential candidates consisting of candidate number 01 and candidate number 02. After presidential election was held, various independent survey agencies as well as general election commission indicated that the presidential candidate number 01 was the winner of the election. However, the presidential candidate number 02 rejected the election result because they thought there was fraud. As a result of the rejection of the election results, large demonstrations occurred. However, the presidential candidate number 02 finally took a constitutional route in resolving the dispute by filing a lawsuit at the constitutional court because they did not want more chaos in this country. They submitted a lawsuit against the results of the elections to the constitutional court on 24 May 2019. The result of the lawsuit was finally announced on 28 Jumi 2019 by assigning presidential candidate number 01 as the winning of presidential elections in 2019. This incident caused turmoil to the company's shares in the Indonesia stock exchange before and after the lawsuit to the constitutional court . However, the average share price as reflected by the composite stock price index (IHSG) did not really decline in the days before and several days after the lawsuit. Table 1 and table 2 below describe the development of the IHSG before and after the lawsuit to the constitutional court.

Table 1: IHSG Before the Lawsuit on the Results of the 2019 Presidential Election

15 May	16 May	17 May	20 May	21 May	22 May	23 May
5.462,74	5.895,74	5.826,87	5.826,87	5.951,37	5.939,64	6.032,70

Source: Indonesia Stock Exchange

Table 1: IHSG After the Lawsuit on the Results of the 2019 Presidential Election

27 May	28 May	29 May	30 May	31 May	3 June	4 June
6.098,97	6.033,14	6.104,11	6.209,12	6.289,61	6.305,99	6.276,18

Source: Indonesia Stock Exchange

The movement of company stock prices in the Indonesian stock exchange can be influenced by the information content of an event, both economic and non-economic events such as political event. If the stock price in the capital market reacts quickly and accurately to reach a new equilibrium price that fully reflects the information contained in the event, then such capital market conditions are called efficient capital markets (Tendelilin; 2010). Fama (1970) defined that the efficiency capital market was a market where the stock price that was created reflected all information from available event. He divided the form of efficient capital market into three categories, namely weak-form market efficiency, semi-strong market efficiency, and strong form market efficiency.

Research on the impact of political events on stock prices in the capital market has been conducted by previous researchers but there are still differences in the results of the research. Trisnawati (2011) proved that the Indonesian capital market did not react to political event in the 2004 presidential election which was indicated by no difference in the average abnormal return before and after the event, but in the 2009 presidential election, the Indonesian capital market reacted to the events indicated by a difference in average abnormal returns before and after the event. Research conducted by, Kabela & Taufik, (2009) in the 2009 presidential election, and Chandra, Njo & Gesti (2014) in the 2004 and 2009 presidential elections using the LQ45 index proved that there was no significant difference in the average abnormal return before and after the event.

The political events of the 2019 presidential election in Indonesia have taken place one year ago, but this event is still very interesting to study considering that the presidential candidate number 02 rejected the results of the survey institutions and the general election commission. This political resistance continued by filing a lawsuit to the constitutional court which has never happened in the history of the presidential election in Indonesia, Based on national political phenomena in 2019, there was still a research gap in previous research and to the best of the writer's knowledge there were no researchers who studied the reaction of stocks in the Indonesian capital market to the incidents of disputes over the election of presidential candidates, so this study tries to test whether the incident of the lawsuit against the presidential election result to the constitutional court in 2019 caused a reaction in the stock price in the Indonesian capital market. The purpose of the event study is to know whether the information content of an event of presidential election will react the stock price in Indonesian capital market. An event will cause the stock price in the stock market to react or cannot be tested using a method called an event study. MacKinley (1997) defines an event study as a research methodology that uses financial market data to measure the impact of a specific event which is usually reflected in stock prices. The purpose of the event study is to examine the information content of an event. If the event contains information, then the stock price in the stock market will react to that event.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Market Efficiency Theory

Fama (1970) defines that the capital market efficiency is a market where the stock price created reflects all information from available events. He divides three forms of capital market efficiency known as the Efficiency Market Hypothesis, 1). Weak Form Market Efficiency: The prices of securities on the exchange reflect past prices. 2). Semi Strong Form Market Efficiency: Is the level of efficiency at which the price of a security on the exchange reflects past prices and also reflects all information available to the public. This semi-strong form means that the price that occurs is a fair

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price and no investor can get a profit above normal (abnormal return). This is because all investors are able to access all information available on the market without any transaction costs. No investor has experienced losses or gains above average due to the ignorance of other investors. In a semi-strong form, all investors are sophisticated. 3). Strong Form Market Efficiency:: Is the most perfect form of market efficiency. This form occurs when the share price not only reflects past prices and all publications available on the exchange but also reflects insider information. A strong-form efficiency market will not be possible in this world because insider information is not allowed according to the provisions of most stock exchanges in the world.

Previous Research

Research on the reaction of the capital market due to an event, among others, was carried out by Rahayu (2007) who examined the reaction of the capital market to the announcement of a unified Indonesian limited cabinet reshuffle for companies on the Jakarta Stock Exchange. This research stated that the capital market had a positive and significant reaction to the reshuffle announcement for limited cabinet members. This was indicated by the appearance of a positive and significant average abnormal return around the announcement date. Bialkowski & Wisniewski (2008) who examined stock market volatility around national elections with samples from 27 Organization for Economic Co-operation and Development (OECD) countries. This study stated that despite several accurate attempts to predict the outcome of an election, investors were still surprised at the outcome of the voting distribution. The stock price reacted strongly in response to this shock. In addition, they conclude that the volatility component of a developing country doubled during the election period.

Kabela & Taufik (2009) examined the effect of the presidential election on July 8, 2009 in the Indonesian Stock Exchange. The result stated that there was a difference in the average abnormal return around the presidential election on July 8, 2009. Furthermore, using the paired simple t-test, it can be concluded that there was no difference in the average abnormal return before and after the Presidential election on July 8, 2009. Tecualu & Rianny (2010) who examined the reaction on LQ-45 of the Indonesian capital market to the 2009 Kuningan bomb incident. The research result indicated that this event did not generate significant abnormal returns for investors. The average abnormal return between before and after the event was not significantly different. In other word, the event did not affect the response of investors in the capital market.

Trisnawati(2011) examined the effect of political events on changes in stock prices by statistical testing comparing means one sample t test with a 95% confidence level. The results of the study stated that there was no difference in the average abnormal return between before and after the 2004 presidential election. Meanwhile, the statistical test compared the means one sample t test with a 95% confidence level stated that there was a difference in average abnormal returns between before and after. the event of the 2009 presidential election. Investors did not react to the events of the 2004 presidential election because investors were waiting and watching carefully the events that were taking place. In the 2009 presidential election, investors reacted, marked by a negative difference in the average abnormal return.

Wardhani (2012) examined the reaction of the Indonesian capital market to the election of the Governor of DKI Jakarta Round II 2012 on shares of the compass index100. The results of the t-test showed that there was a significant positive abnormal return on several days around the event date. Meanwhile, the Wilcoxon signed rank test results proved that there was a significant difference between the average abnormal returns in the post-event period but not significant in the pre-post-event period and the pre-post-event period. The results of the Wilcoxon signed rank test also showed that there was a significant difference between the mean TVA in the pre-event period and the post-event period, but it was not significant in the pre-post-event period.

Chandra, Njo & Gesti (2014) conducted a study on average abnormal return, average trading volume activity before and after the election in Indonesia, stating that there was no significant difference in average abnormal return in the LQ-45 group before and after the presidential election in Indonesia.

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2004 and 2009. There was no significant difference in average trading volume activity in the LQ-45 group before and after the presidential elections in 2004 and 2009. Permana (2013) examined abnormal returns in the financial sector before and after the elections for the Governor of DKI Jakarta on September 20, 2012. The results proved that there were significant differences in positive abnormal returns on the fifth day. This condition showed that the market reacts to the events.

Pratama & Gede Mertha (2014) examined the comparison of abnormal returns before and after the announcement of the rights issue in the 2009-2012 period with a sample of 60 companies. The result concluded that there was no significant abnormal returns before and after the announcement of the rights issue and during the estimation period there was an average less consistent abnormal return. Setyohutomo & Nadia (2014) tested the reaction of the capital market before and after the announcement of the stock split on the Indonesia Stock Exchange in 2012. The result stated that there was no difference between the average abnormal return before and after the event. Shah & Parvinder (2014) examined a sample in the Asia-Pacific region during the period May 2013 - September 2013 to identify the post-facto effect of M&A announcements on firm target share prices and bidding firms. The result indicated a positive cumulative average abnormal return (CAAR) which is significantly different from zero. The bidding firm did not show statistically significant CAAR in all event windows. The bidding firm illustrated that the return after the announcement was significantly greater than the profit before the announcement.

The difference between this study and previous studies is that this study uses all 536 companies listed on the Indonesian Stock Exchange in 2019, which to the best of my knowledge has never been carried out by previous researchers. This research is an event study by taking non-economic events in the form of a lawsuit on the results of the 2019 Indonesian presidential election which is related to the capital market reaction. The theoretical framework begins with the existence of non-economic events, namely political events in a series of disputes over the results of the presidential election to the constitutional court as events that contain information. The capital market reacts to all information that is relevant to investors and will cause market reactions that are reflected in changes in share prices. The research variable used to see the impact of information from the 2019 presidential election lawsuit on the capital market reaction is abnormal returns. The average abnormal returns before and after the event were then compared. The following is a conceptual framework which is analyzed based on theoretical basis.

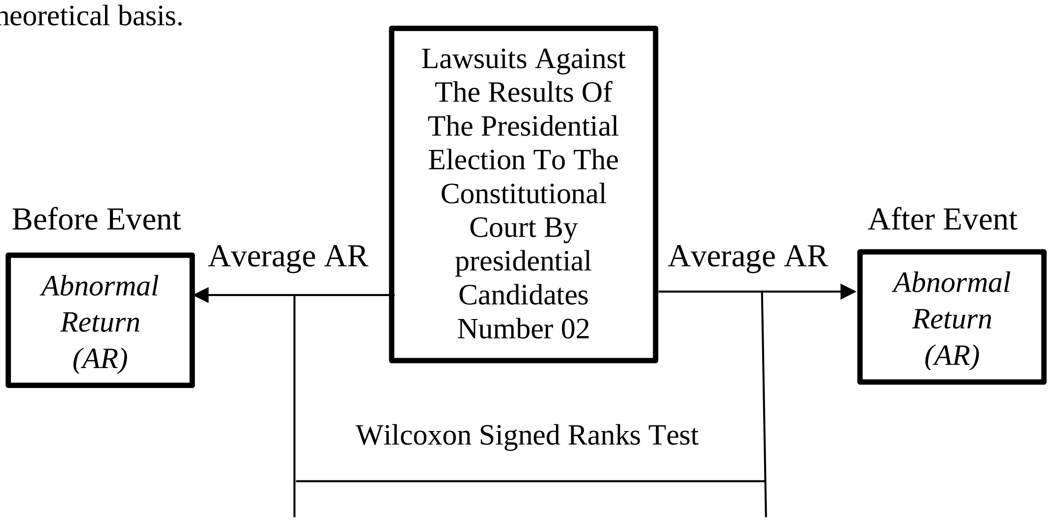

Figure 2.1. Resesearch Framework

Stock price movements can be influenced by information from an event, both economic and non-economic, including political events. The absorption of information by the capital market depends on how efficient the form of the capital market is. Fama (1970) states in his market efficiency theory that the efficiency capital market is a market where the stock price that is created reflects the overall information from available events. Meanwhile Beaver (1968) states that the relationship between information from an event and the price of the security is called market efficiency. The faster the

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market reacts to information from an event, the more efficient the capital market is and the information is relevant.

According to the Efficiency Market Hypothesis put forward by Fama (1970) states that the form of capital market efficiency can be divided into three forms. 1). Weak form market efficiency which states that the prices of securities in the capital market reflect past prices. 2). Semi-strong from market efficiency is the level of efficiency where the price of a security in the exchange reflects past prices and also reflects all information available to the public. 3). Strong form market efficiency. is the most perfect form of market efficiency. This form occurs when the share price not only reflects past prices and all publications available on the exchange but also reflects insider information.

The lawsuit against the results of the 2019 presidential candidate number 02 to the constitutional court is a very large political event in Indonesia in 2019. Samsul (2006) said that national political events can cause prices stocks in the stock market reacted. The events of the 2019 presidential election lawsuit will become information for investors and they will act according to how they interpret the information. According to the Signaling theory investors will act if they get information, both bad news and good news. The difference in the average abnormal return before and after an event is a form of reaction and different expectations from capital market players towards that event. Based on the theoretical study above, the hypothesis of this research is:

H_0: There is a difference in the average abnormal return before and after the lawsuit against the result of the 2019 presidential election

H: There is no a difference in the average abnormal return before and after the lawsuit against the result of the 2019 presidential election

3. RESEARCH METHODOLOGY

Data and Sample

The data used are daily stock prices of all companies and daily composite stock price in 2019 published on the Indonesian stock exchange website. The population of this research is all companies listed on the Indonesian stock exchange in 2019, consisting of 536 companies. The selection of the research sample was carried out by using the census sampling method (Sugiyono, 2013). The sample of this study was 536 companies listed on the Indonesian stock exchange. The observation period of the event consists of a 12 days event window (six days before, event day, and six days after).

Research Variables

This study uses Abnormal Return before and after the lawsuit against the result of presidential election in 2019 as a variable. Abnormal return is the difference between the actual return and the expected return. Abnormal returns can be calculated by the formula:

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

Techniques Analysis

The data analysis technique in this study is as follows (Jogianto, 2010):

1. Calculate the Actual Return of each share

$$Rit = \frac{Pit - Pit_{-1}}{Pit_{-1}}$$

2. Calculate the Expected Return using a market adjusted model

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$$E(R_{it}) = \frac{IHSG_{it} - IHSG_{it-1}}{IHSG_{it-1}}$$

3. Calculate the Abnormal Return of each share

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

4. Calculate the Average Abnormal Return of each share

$$\mathrm{AAR_t} = \frac{\mathrm{ARit}}{\mathrm{n}}$$

5. Calculate *Cumulative Abnormal Return*

$$CARit = \sum ARit$$

Information:

Rit	: Actual return for stock i on day t
Pit	: Closing price on day t
Pit_{-1}	: Closing price on the previous day
$E(R_{mt})$	: The estimated return is equal to the market return
$IHSG_{it}$	: Composite stock price index on day t
$IHSG_{it-1}$	: Composite stock price index on the previous day
AR_{it}	: Stock i's abnormal return on day t
CARit	: Cumulative abnormal return
$\mathrm{AAR_t}$	: Average abnormal return
n	: Total shares sampled

The normality test is intended to determine whether the sample data meets the requirements of a normal distribution. One Sample Kolmogorov-Smirnov is applied to detect data normality (Ghozali, 2013). The following are guidelines for decision making for the results of the One Sample Kolmogorov-Smirnov normality test:

a. If the value is asympt. Sig. (2-tailed) <0.05, data distribution is not normal.

b. If the value is asympt. Sig. (2-tailed> 0.05, data distribution is normal

The Wilcoxon Signed Rank Test is a nonparametric test to measure the significance of the difference between 2 groups of paired data on an ordinal or interval scale but with an abnormal distribution (Singgih, 2010). The Wilcoxon Signed Rank Test is an alternative test of paired t test or paired t if it does not meet assumption of normality. After the normality test was carried out on the sample data of this study, the results showed that the data were not normally distributed, so this study used the Wilcoxon Signed Rank Test. The decision making hypothesis from the Wilcoxon Signed Rank Test is as follows:

If the asympt sig (2-tailed) value <0.05, there is a significant difference in results two variables that are paired

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If the asympt sig (2-tailed) value> 0.05, there is no difference in the results the two significant variables are paired

Descriptive statistical analysis is intended to see the profile of the study and provide an overview of the object under study through sample data and make generally accepted conclusions. Descriptive statistics are used to describe a data that is seen from the mean, median, standard deviation, minimum value, and maximum value.

4. RESULTS AND DISCUSSIONS

After the normality test of the abnormal return and cumulative abnormal return data with the One-Sample Kolmogorov-Smirnov Test, the results show that both the abnormal return and the cumulative abnormal return are not normally distributed because they have an Asympt value (Sig 2-tailed) <0.05. The results of the normality test show that the data is not normally distributed, so hypothesis testing will use the Wilcoxon Signed Ranks Test. Table 3 below describes the results of descriptive statistical abnormal returns six days before the event, during the event window and 6 days after the event from 536 companies listed on the Indonesian Stock Exchange in 2019.

Table 3. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
AR t-6	536	-327	119	-92.02	40.186
ARt-5	536	-199	312	6.91	41.553
ARt-4	536	-186	272	-7.42	43.869
ARt-3	536	-193	243	.55	47.916
ARt-2	536	-246	221	5.58	43.800
ARt-1	536	-361	219	-9.75	47.532
ARt0	536	-954	347	-3.04	68.249
ARt+1	536	-172	232	6.72	34.007
ARt+2	536	-171	330	-5.69	40.689
ARt+3	536	-764	328	-7.50	51.997
ARt+4	536	-253	232	-9.30	44.473
ARt+5	536	-195	281	2.52	36.942
ARt+6	536	-244	255	6.61	41.846
Valid N (listwise)	536				

The minimum abnormal return value before the 2019 presidential election occurred on day t-1 of -0.361 with a mean value of -9.75 and a standard deviation value of 47.532. Meanwhile, the maximum abnormal return value before the 2019 presidential election occurred at t-5 with a value of 0.312 with a mean value of 6.91 and a standard deviation value of 41.196. The minimum abnormal return value after the lawsuit against the results of the 2019 presidential election to the constitutional court was on day t + 3 of -0.764 with a mean value of -7.50 and a standard deviation value of 51.997. The maximum abnormal return value after the lawsuit on the results of the 2019 presidential election occurred at t + 2 with a value of 330 with a mean value of .69 and a standard deviation of 40.689. These results illustrate that there is still a decrease in abnormal returns on days t + 2 to t + 4, which can be seen from the decreased mean value during that period. However, there was an increase in the mean value at t + 5 and t + 6. If you look at the results of the descriptive statistics data above, it indicates that there is a reaction in the Indonesian capital market regarding the lawsuit against the results of the 2019 Indonesian presidential election.

Tabel 4. *Descriptive Statistics*

	N	Minimum	Maximum	Mean	Std. Deviation
AAR before lawsuit	536	-82	40	-16.05	12.735
AAR after lawsuit	536	-656	479	-6.66	78.085
Valid N (listwise)	536				

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Based on the research results in table 4 above, it shows that the minimum and maximum average abnormal return (AAR) values of 536 companies on Indonesia stock exchange in 2019 show that the minimum AAR and maximum AAR values before the lawsuit for the election of presidential candidates in 2019 are -82 and 40, respectively. with a mean value of -16.05 and a standard deviation of 12.735. Meanwhile, the minimum and maximum AAR values after the lawsuit were -656 and 479 with a mean value of -6.56 and a standard deviation of 78.085, respectively. The results of this study illustrate that the growth in the mean average abnormal return both before and after the presidential candidate's lawsuit is negative.

Tabel. 5
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CAR before lawsuit	536	-494	242	-96.34	76.492
CAR after lawsuit	536	-656	479	-6.66	78.085
Valid N (listwise)	536				

The results of descriptive statistics in table 5 above show that the cumulative abnormal return (CAR) value. The minimum and maximum cumulative abnormal return (AAR) values of 536 companies in indicate that the minimum and maximum CAR values before the lawsuit for the presidential election in 2019 were -494 and 242, respectively, while the mean value is -96.34 and the standard deviation is 76.492 ,. The minimum and maximum CAR values after the lawsuit were -656 and 479 with a mean value of -6.56 and a standard deviation of 78.085, respectively. The results of this study illustrate that the growth in the mean cumulative abnormal return both before and after the presidential candidate's lawsuit is negative.

The normality test on data on abnormal returns and cumulative abnormal returns use the One-Sample Kolmogorov-Smirnov Test, The result shows that the data are not normally distributed. If the data is not distributed so Wilcoxon signed rank test can be applied. The results of hypothesis testing can be seen in table 6 and table 7 below. Based on the results in table 6, it shows that the Asymp. Sig (2tailed) of the abnormal return before and after the lawsuit against the 2019 presidential election is 0.0117, thus the hypothesis H0 is accepted and H1 is rejected. This condition indicates that there is a difference in abnormal returns before and after the lawsuit for the presidential election in 2019. In other words, the lawsuit made by the president candidate number 02 has an effect on the abnormal return of shares in the Indonesian stock exchange.

Table 6. Wilcoxon Signed Ranks Test results

Wilcoxon Signed Ranks Test results	AAR before lawsuit - AAR after lawsuit
Z	-2.379^{b}
Asympt. Sig. (2-tailed)	.017

Meanwhile, the results of Asympt sig (2 tailed) of cumulative abnormal returns in table 7 before and after the lawsuit against the 2019 presidential election were 0,000. The result indicates that there is a difference in cumulative abnormal returns before and after the lawsuit of the presidential and vice presidential candidates.

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Table 7. Wilcoxon Signed Ranks Test results

Wilcoxon Signed Ranks Test results	CAR before lawsuit - CAR after lawsuit
Z	-16.634[b]
Asymp. Sig. (2-tailed)	.000

After testing the research hypothesis, the results showed that there was a significant difference in abnormal returns before and after the lawsuit on the results of the presidential election at a 95% level of confidence.. Investors respond to the information signals contained in the event because they think that this political event will have an impact on the financial performance of companies in the Indonesian Stock Exchange so that they react. This lawsuit incident which was accompanied by a large demonstration made investors consider the information contained in the incident meaningful and relevant. This condition raises the psychological feeling of investors which creates a sense of concern which in turn encourages investors to respond to the Indonesian capital market.

Referring to the mean abnormal return value in descriptive statistics before and after the 2019 presidential election lawsuit, it shows that the mean abnormal return is negative at t-6, t-4 t-1 up to the event window (t0). Meanwhile, the mean abnormal return after the event was negative at t + 2, t + 3 and t + 4. The existence of a negative abnormal return indicates that investors react to the information about a large lawsuit and demonstration which is bad news for investors so that they react negatively to the capital market. Although all investors can access information on political events related to a lawsuit against the results of the presidential election, not all investors will react to the information content of these events. This condition is what allows the difference in abnormal returns before and after the lawsuit against the results of the 2019 presidential election.

The results of this study support the market efficiency theory which states that the efficiency capital market is a market in which the stock price that is created reflects all information from available events. The results of this study support the results of research from Trisnawati (2011) which examines the effect of political events on changes in stock prices by statistical testing comparing means one sample t test with a 95% confidence level. The results of the study show that there is a difference in the average abnormal return between before and after the 2009 presidential election. However, this research contradicts the results of research conducted by Chandra, Njo & Gesti (2014) who conducted research on average abnormal returns, before and after the presidential election in Indonesia. The result states that there is no significant difference in the average abnormal return in the LQ-45 group before and after the presidential election events in 2004 and 2009.

5. CONCLUSION

Based on the results of the research above, the conclusion of the study is that the Indonesian capital market reacted to the lawsuit the presidential candidates number 02 to the constitutional court in 2019. This indication is shown by differences in abnormal returns before and after the lawsuit incident. the results of the 2019 presidential election. Abnormal returns reacted negatively in the days before and several days after the lawsuit against the results of the presidential election. This condition indicates that investors reacted to the lawsuit event. These results also indicate that there are investors who do not react to information from these events.

LIMITATION AND STUDY FORWARD

Companies listed on the Indonesian stock exchange should continue to improve their financial performance even though there are issues that may have an impact on the capital market. If the company's financial performance is good, investors will be interested in purchasing the company's shares. Rational investors should obtain relevant information in making decisions to buy or sell company shares. Investors should also consider not only technical factors but also the company's fundamental factors in buying or selling shares of a company. The limitation of this research is that there is still a need to add more observation time. For further research, it is recommended to use market model in determining the expected return before and after the presidential election result announcement.

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