DAVID NATHANAEL SUTYANTO. Analysis of the Effect of Tick Size Simplification to Trade and Stock Return in Indonesia Stock Exchange. Supervised by NUNUNG NURYARTONO and TRIAS ANDATI.

On January 6, 2014 Indonesia Stock Exchange simplified the tick size. The purpose of these changes is to improve the liquidity and to reduce the volatility. But the fact in 2014 the total volume of transactions fell by 1.16% and the value of transactions fell by 4.52%. The pros and cons reaction, the trading volume deterioration, as well as the inconclusive results raised by previous studies, however emerge the importance of the research on the effect of change the tick size becomes attractive.

Tick size is one of the components of the market microstructure. Market microstructure theory is the study of how information is summarized in the price of securities markets through trading activity and how regulations affect the efficiency of market institutions on security prices. To quantity the effect we analyzed the liquidity variables in the form of bid ask spread, depth, volume and the volatility variables in the form of price volatility. Variable stock return is used to determine whether changes in the tick size provide effect on investors. The samples are issuers listed on LQ45. GARCH analysis was performed to see if the issuer in LQ45 have an immediate reaction to the changes that occur.

Results of this study indicate a Signifikan influence on the change in tick size to variable bid ask spread, depth and volume. Tick size change does not affect the stock price volatility. Market microstructure between variables also showed a relationship of mutual influence. GARCH analysis results showed that issuers in LQ45 quickly absorb information.

It is found positive results due to changes in the fraction of the stock price on the sample LQ45. Changes in the tick size increase liquidity and does not affect volaitlitas. While the liquidity and volatility affect stock returns. It can be deduced changes in the tick size indirectly affect the stock return.

Keywords: bid ask spread, depth, market microstructure, tick size, volatility, volume, stock return