The volatile nature of the capital market is attractive to investors because they would get dividends and also benefit from capital gains. Stock price volatility in the exchange market is essentially due to many factors, both economic and non-economic (political). Countries with stable political conditions can support economic growth because of the trust and security for investors.

The legislative election (PILEG) in 2004, 2009, and 2014 were among the national political events that could have an impact on the capital market. Measurement of the events' impact on the capital market is known as event study. One of the critical assumptions in the event study is controlling the confounding effect. Confounding effect is another event that could affect stock prices aside from observed events. This study controlled the confounding effect on a 11-day window period. The reaction of the capital market was measured by the average variable abnormal return (AAR) as the value of the change of the difference between return that occurs when the event took place (expected return) with return that occurred during the events (the actual return).

The study concluded that: (1) PILEG 2004 was regarded as good news for investors with positive AAR on the event date. Additionally, the AAR had a positive significance on the D-1, D+3 and negative on D-3, D+1, D+2 (2) The market reacted positively to PILEG 2009 demonstrated by positive AAR on D+2 and D+4 , (3) PILEG 2014 was responded negatively by the market with significant negative AAR on D+1 and D+2. (4) There were no significant differences between the AAR before and after PILEG 2004, 2009 and 2014. (5) The reaction of the market to absorb the information quickly shows that the Indonesian capital market was efficient in semi-strong form toward PILEG events.

Keywords: abnormal return, event study, legislative election, LQ45