

SUMMARY

NADHIRA AFINA PUTRI. Effect of Federal fund rate and BI rate announcement to abnormal return and trading volume in Indonesia stock market. Supervised by LUKYTAWATI ANGGRAENI and SYAMSUL HIDAYAT PASARIBU.

The stock market is a important instrument for every country, since it becomes one of company external funding for productive activity. There are two factors which influence investors in making the investment; company's internal factors and company's external factors. The internal factors that affect the stock market stock is the structure of capital, debt structure, and others. While one of the external factors that affect the movement of stock price movements is monetary policy.

Today, economic system in many countries, applies open economic system, which leads to the connection among the countries. This causes the country which is a small open economy like Indonesia will affect the events that occur in the large economy like America, Europe, and etc. Therefore the external factors of the company such as monetary policy becomes one of the most important considerations that must be considered by investors to make investment, both domestic monetary policy and foreign monetary policy.

The monetary policy of the United States which the center attention for various countries is the announcement of interest rate of the Federal Fund Rate (Fed Rate). Fed rate has become a benchmark of interest rate in other countries' central bank, as US dollar is a global currency for business and foreign exchange saving. In doing so, the announcement of USD interest rate is used as a reference of interest rate, including in Indonesia (BI rate). So BI rate and Fed rate are used as investors' reference in making the investment in Indonesia Stock Exchange. Fed rate and BI rate announcement may influence movement of the stock market in Indonesia. Stock market reaction towards a phenomenon can be measured by abnormal return and trading volume. Therefore this research is conducted to find out the impact of Fed rate and BI rate announcement to abnormal return and trading volume in stock market Indonesia.

This research uses secondary data which are focused to analyse the impact of Fed rate and BI rate announcement toward the abnormal return and trading volume during August 2016 until March 2017. The data of stock price were gained from www.idx.com. This research is conducted from August 2016 which correspond with the change of Indonesia interest rate, from BI rate to BI rate 7 day report. The method analysis to calculating abnormal return and trading volume is using event study. with stages as determination of estimation period, which in this study using event window (-3, +3), (-5, +5), and (-7, +7) and the estimated period of 200 days, the next stage is the calculation of actual return and then followed the calculation of expected return by using ordinary least square (OLS). And the method to know the change of trading volume is by using trading volume activity.

Based on the result of the research during Fed rate and BI rate announcement in September 2016, November 2016, December 2016, February 2017, and March 2017 give affect to abnormal return. Announcement of Fed rate and BI rate also affect the movement of the stock market before and after

announcement. The result showed there is the differences of abnormal return before and after the announcement of the Fed rate dan BI rate. Average abnormal return calculation results show that in the first category of the Fed rate remains and the BI rate decreased in September 2016 and November 2016 found inconsistent results. This is due to the high risk of global problems elected by the United States election in November 2016. The calculation results in the second category when the Fed rate and BI rate is fixed, ie in February 2017 resulted in a tendency not found abnormal return. Uncertainty from the election result of regional head (PILKADA) become investor consideration to not make investment so tends not found abnormal return. The latter category is when the Fed rate increases and the BI rate remains in December 2016 and March 2017, where the abnormal return trend was found in March 2017. The Fed rate announcement in December 2016 has been predicted, so the Fed rate announcement has been anticipated by investors. In March 2017, the sector that responds consistently is the financial sector that gives a positive abnormal return, while the transport sector, infrastructure, and utilities are experiencing a decrease in abnormal returns after the announcement of Fed rate and BI rate.

The results of this study indicate that the announcement of the Fed rate and BI rate affect the changes in trading volume. This is evidenced by the calculation of trading volume activity, which shows each sector respond differently depending on the conditions of each sector.

Keywords: abnormal return, BI rate, event study, Federal Fund Rate, market model, monetary policy, trading volume activity, trading volume

