ABSTRACT

The Impact of Extreme Events on the Return of Jakarta Composite Indices and Sectoral Indices

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The study was conducted to see the impact of extreme events during the period January 2000 to May 2010. In general, this research is a study to determine how much impact the occurrence of extreme events on the movement of stock price index and sectoral indices. This study uses event study methodology descriptively and quantitatively using econometric modeling and the use of secondary data. To get an accurate modeling results in this study using ordinary least square method and testing of t-statistics. The event study period methodology in this study were consist of estimation periods for 55-day and the observation periods for 20 days. The variables analyzed in this study were average abnormal return and cumulative average abnormal return.

In general, the composite share price index and the sectoral index experienced a significant abnormal return during the period of observation. The presence of impact has the variety and level of significance is different for each index that are traded in capital markets of Indonesia. The impact of a change in the highest rate of return earned investors through stock price index occurred at the JW Marriot bombing incident that is of 10.80 percent, while the impact on the index’s worst incident occurred in an earthquake in Padang, where the average cumulative abnormal returns reaches -11.82 percent at the end of the observation period. At the sectoral index achieved the highest cumulative average in the United Indonesia Cabinet reshuffle events of Volume II of 15.83 per cent which occurred in the index construction and building sector, while the largest decrease in average accumulation index occurred in the agricultural sector in the event Change of President in 2001 of -24.08 percent at the end of the observation period.

Managerial implications in anticipation of the impact of extreme events such as: 1) sectoral indices have a significant effect on each event can be used as benchmarks for investors to make investments in related sectors. 2) Action for delays profit-taking in conditions of positive abnormal return during the period after the incident or suspend loss on condition that the negative abnormal return is a step to optimize the return related to the risk impact of extreme events.

Keywords : Extreme Event, Jakarta Composite Indices, Sectoral Indices, Event Study, and Abnormal return.