SUMMARY

NURLAILA FIRDANI FAJRI. The Effect of Price Categories in Tick Size Policy on Trade and Stock Returns based on LQ45 Index. Supervised by HERMANTO SIREGAR and FERRY SYARIFUDDIN

The capital market has an important role for the economic of a country, including in Indonesia. The capital market in Indonesia is managed by Indonesia Stock Exchange (IDX). In managing the capital market, IDX has been released the new regulation on 13 Januari 2017, number Kep-00113/BEI/12-2016 that focus on five categories in tick size. 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 effeciency of market institutions on security prices. To quantify the effect we analyzed the liquidity variables in the form of bid ask bread, depth, DRS, volume and the volatility variables in the tick size provide effect on investors. The samples are issuers listed on LQ45. Family ARCH/GARCH analysis was performed to see if the issuer in LQ45 have an immediate reaction to the changes thar occur.

The aims of this study was to observed the policy effect of five categories in tick size policy to the liquidity and volatility performance on LQ45 index, found out stock return determinants and found which stocks have high and low risk from the LQ45 index. This study was performed by used the different tes, panel regression test, and ARCH / GARCH family test.

The result of the different test indicate a significant change in variable of *bid ask spread*, DRS, volume and volatility. Tick size changes did not affect the depth. It is found that all variables has a smaller value after changed of tick size. The results of the panel regression test showed that depth, volume and volatility have a significant influence on stock returns, while the bid-ask spread, DRS, and exchange rate does not affect on stock returns. Result of the ARCH/GARCH family test with EGARCH method, found that only 11 stocks of 12 stocks observed have a high risk (AALI, ANTM, ASII, BBCA, BMRI, INCO, INDF, KLBF, PTBA, TLKM, dan UNTR) and the only has low risk stock is UNVR. The result of this study were expected to improve understanding of the tick size regulation in order to determine the best stock investment strategy.

Keywords: Indonesia Stock Exchange, LQ45 index, five categories in tick size, liquidity, stock return, volatility, volatility of stock return