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The Impact of Constitutional Court Ruled on the 2019 Presidential Election Toward Indonesian Stock Market

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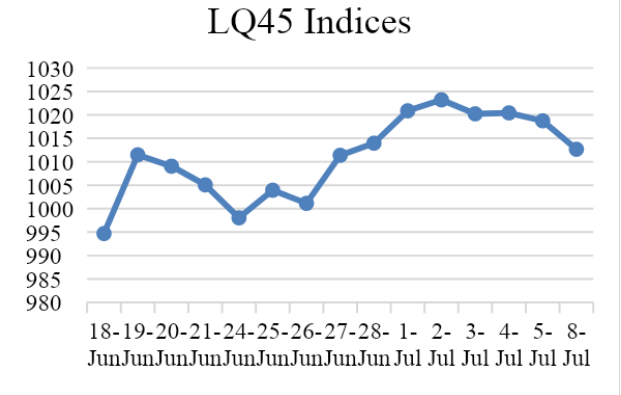
Abstract

The main purpose of this study is to examine the efficiency of the Indonesian capital market as a result of The Impact of Constitutional Court Ruled On The 2019 Presidential Election Toward Indonesian Stock Market. This study uses the event study method with a research period of 7 days before and 7 days after the Constitutional Court ruled on the 2019 presidential election. The data normality test shows that the data is not normally distributed then the research hypothesis uses a non-parametric test, the Wilcoxon Paired Sample test. By using the abnormal return as a variable, the results of the study show that there is no significant difference in the average abnormal return both before and after the Constitutional Courts ruled on the 2019 presidential election lawsuit.

Keywords: abnormal return, event study, EMH, LQ45.

I. INTRODUCTION

Some time ago the Indonesian's democratic party was over. On June 24, 2019, the General Election Commission determined the pair number 01, Jokowi-Ma'ruf, to become president and vice president for the period 2019-2024. However, the result of the decision of the General Election Commission was rejected by pair number 02, Prabowo-Sandiaga and filed a lawsuit to the Constitutional Court. Then, on June 27, 2019 at 21.15 the Constitutional Court decided to reject the entire lawsuit of Prabowo-Sandiaga. Political events like this are quite interesting to study. Because political events always served an interesting side for every circle of society ranging from ordinary people, scholars, researchers, and the state elite. One reason is because political events always bring significant effect on all sides of society lives, starting from the economic, social, and cultural, especially the capital markets. In relation to the Efficient Market Hypothesis, capital markets are generally said to be efficient if prices do not only reflect price information from the past and published information, but also information obtained from certain analyzes and information that is not or not yet published [1]. The reaction is reflected in the form of abnormal returns. Some evidence shows that there have been many researchers in Indonesia who associate with changes in stock prices that occur at the Stock Exchange. One of them was conducted who examined the influence of the 2014 Presidential Election whose results showed that there was no difference in the average abnormal return before and after the Presidential Election [2]. However, it is different result who examined in the same topic, but in different political event which explained that there were significant differences in abnormal return [3]. This is the next question, whether in the 2019 Presidential Election there are also indications of results that support one of these studies. Moreover, in the 2019 Presidential Election there is also a mechanism for filing a lawsuit against the results of the Presidential Election in the



Constitutional Court.

More specifically, the real contribution of the study is if the observations were made in stocks listed as forming the LQ45 indices on the Indonesia Stock Exchange. The following is a picture of the movement of the LQ45 indices during the period 18 June 2019 - 8 July 2019.

From the picture above, it can be seen that there is an indication of the effect of the Constitutional Court's decision on the lawsuit of the 2019 Presidential Election. June 2019. As on June 19, 2019 which at that time was at 1011.48 points weakened by 0.24% to 1009.05 points dated June 20, 2019. Then, it continued to deteriorate until June 21 and 24, 2019 with weakening respectively 0.39% and 0.70%. It was strengthened on June 25, 2019 however, it weakened again on June 26, 2019 to 0.28%. However, on June 27, 2019 the LQ45 index was recorded to strengthen again by 1.02% at 1011.38 points and followed by reinforcement to dated July 2, 2019. From the explanation of the previous picture, there was also a statement from the Head of Research at MNC Sekuritas, Edwin Sebayang that the victory of Jokowi-Ma'ruf Amin made the market unnecessary anxious about the continuation of infrastructure development projects. Which means that construction shares such as WIKA, WSKT, and PTPP which are also listed as shares forming the LQ45 indices need to be considered by investors [4].

If we study the concept of an efficient market, we will focus on its origins, Eugene Fama. Capital markets are generally said to be efficient if prices do not only reflect price information from the past and information that has been published, but also information obtained from certain analyzes and information that is not or not yet published [1]. This is also that competitive financial markets utilize all available information in shaping stock prices [5]. That is, the stock price formed is a reflection of all the information that affects the stock price either new information or sudden or surprising information. Just like other researchers who referred to Fama's efficient market hypothesis and then, to verify the theory it can be used as an event study approach. Event study is a method for measuring an economic event against the value of a company. Its usefulness is seen in the efficiency of a market that the impact of an event will soon be reflected in a company's asset prices [6]. Some studies have tested the effect of an event or information coming from outside the company, there is a study from Egypt, whose research is quite unique because it uses political events with 3 different events. His research also uses the VAR-EGARCH model to determine the results of the volatility of the effects of events that occurred in Egypt at the time. For abnormal returns using the t-Test method with significant results before and after the event date [7]. On the other hand, a study case in the USA that examines stocks

in the financial sector, which are listed on the New York Stock Exchange with the result that there are significant abnormal returns before and after the event date [8]. Therefore, by using 44 sample shares of companies forming the LQ45 indices and using the event study approach, this study tries to find out how much effect this event has on the capital market. This study selected LQ45 Indices because LQ45 has representative best stocks in all sectors. The difference in abnormal return becomes a proxy measured in this study.

II. METHOD

This study uses an event study approach and conducts a hypothesis test by analyzing numerical data in its calculations. This study uses secondary data in the form of closing prices of shares forming the LQ45 indices. Observations were made 7 days before and 7 days after the Constitutional Court's decision on the 2019 Presidential Election lawsuit. During the observation period, there were 44 companies that met the criteria for sampling. Then there are 1 company doing corporate action. This research lasted for 14 days of trading activities, 7 days before and 7 days after the event. Observations to examine the influence of the Constitutional Court's ruling on the 2019 Presidential Election lawsuit against changes in stock prices used 1 proxy, namely abnormal return. Therefore, the number of observations in this study were 616 observations with 1 research proxy, namely abnormal return. This study also tries to analyze the contribution made by each sector by comparing each sector with the LQ45 indices itself. Abnormal return is calculated as the difference between actual return and expected return measured daily [9]. Individual actual stock return is calculated using the following formula:

$$\mathrm{R.it} = Ln(\frac{Pit}{Pit-1}) \qquad (1)$$

The formula above is Actual Return, which is the return that has occurred and calculated using historical data, can also be used as a measurement of company performance. While Expected Return is the return expected by investors. Expected returns in this study are calculated using the Market-Adjusted Model, which is an adjustment model that assumes that the best predictor for estimating the return of a security is the market indices return at that time [10]. Abnormal returns are calculated using the following equation:

$$AR_{it} = R_{it} - R_m \quad (2)$$

III. RESULTS

During the observation period, there were 44 companies that met the criteria for sampling. This study also tries to compare the results of each sector. The LQ45 forming shares in the February 2019 - August 2019 period was formed by a number of shares from each of the 9 sectors on the IDX, represented by a number of company shares, but for 3 of the 9 sectors namely agriculture, misc-industry, and infrastructure were not analyzed due to the number of samples less than 5, while processing data using the SPSS application can process data with a sample size of more than 5. Before going in the hypothesis test, the data that have been collected must go through the normality test. Its result can be seen at the table in this below.

Table 1. Normality Test

	N	Normal Parameters[a,b]		Most Extreme Differences			Test Statistic	Asymp. Sig. (2-tailed)
		Mean	Std. Deviation	Absolute	Positive	Negative		
tminus7	44	-0,001	0,028	0,210	0,210	-0,142	0,210	,000
tminus6	44	0,004	0,021	0,162	0,162	-0,112	0,162	,005
tminus5	44	0,006	0,038	0,203	0,203	-0,200	0,203	,000
tminus4	44	-0,002	0,014	0,081	0,081	-0,063	0,081	,200
tminus3	44	0,005	0,031	0,254	0,254	-0,214	0,254	,000
tminus2	44	0,010	0,043	0,320	0,320	-0,199	0,320	,000
tminus1	44	0,001	0,021	0,224	0,224	-0,098	0,224	,000
t	44	-0,001	0,019	0,135	0,093	-0,135	0,135	,044
tplus1	44	-0,004	0,012	0,121	0,121	-0,101	0,121	,109
tplus2	44	0,009	0,025	0,168	0,168	-0,131	0,168	,003
tplus3	44	-0,002	0,019	0,148	0,148	-0,086	0,148	,016

tplus4	44	-0,006	0,023	0,214	0,214	-0,126	0,214	,000
tplus5	44	0,001	0,017	0,130	0,130	-0,120	0,130	,058
tplus6	44	-0,002	0,022	0,229	0,229	-0,112	0,229	,000
tplus7	44	-0,003	0,016	0,111	0,093	-0,111	0,111	,200

The results of the normality test for forming the LQ45 indices state that the data are not normally distributed, therefore the test used is the Wilcoxon Paired Sample test. However, if sorted in each sector indicates that the data is normally distributed, then the test used is the Paired Sample test.

Table 2. Summary of Hypothesis Testing Results (*t-statistics*)

Period	Mean	Mean dif.	Median	Median dif.	p-value	Conclusion
t-7 vs t+1	-0,0008 (-0,0042)	-0,0034	-0,0032 (-0,0026)	0,0006	0,466	No difference of AR
t-7 vs t+2	-0,0008 (0,009)	0,0098	-0.0032 (0,0007)	0,0039	0,076	No difference of AR
t-7 vs t+3	-0,0008 (-0,0022)	-0,0014	-0,0032 (-0,0048)	-0,0016	0,411	No difference of AR
t-7 vs t+4	-0,0008 (-0,0059)	-0,0051	-0,0032 (-0,0021)	0,0011	0,223	No difference of AR
t-7 vs t+5	-0,0008 (0,0011)	0,0019	-0,0032 (-0,0002)	0,003	0,294	No difference of AR
t-7 vs t+6	-0,0008 (-0,0019)	-0,0011	-0,0032 (-0,0032)	0	0,620	No difference of AR
t-7 vs t+7	-0,0008 (0,0032)	0,004	0,0032 (0,0000)	-0,0032	0,739	No difference of AR
t-6 vs t+1	0,0043	-0,0085	0,0002	0,0028	0,097	No difference of AR

	(-0,0042)		(-0,0026)			
t-6 vs t+2	0,0043 (0,009)	0,0133	0,0002 (0,0007)	0,0005	0,441	No difference of AR
t-6 vs t+3	0,0043 (-0,0022)	-0,0065	0,0002 (-0,0048)	-0,005	0,183	No difference of AR
t-6 vs t+4	0,0043 (-0,0059)	-0,0102	0,0002 (-0,0021)	-0,0023	0,070	No difference of AR
t-6 vs t+5	0,0043 (0,0011)	-0,0032	0,0002 (-0,0002)	0	0,779	No difference of AR
t-6 vs t+6	0,0043 (-0,0019)	-0,0062	0,0002 (-0,0032)	-0,0034	0,138	No difference of AR
t-6 vs t+7	0,0043 (0,0032)	-0,0011	0,0002 (0,0000)	-0,0002	0,074	No difference of AR
t-5 vs t+1	0,0057 (-0,0042)	-0,0099	0,0017 (-0,0026)	-0,0043	0,143	No difference of AR
t-5 vs t+2	0,0057 (0,009)	0,0147	0,0017 (0,0007)	-0,001	0,856	No difference of AR
t-5 vs t+3	0,0057 (-0,0022)	-0,0079	0,0017 (-0,0048)	-0,0065	0,158	No difference of AR
t-5 vs t+4	0,0057 (-0,0059)	-0,0116	0,0017 (-0,0021)	-0,0038	0,042	No difference of AR
t-5 vs t+5	0,0057 (0,0011)	-0,0046	0,0017 (-0,0002)	-0,0019	0,599	No difference of AR
t-5 vs t+6	0,0057 (-0,0019)	-0,0076	0,0017 (-0,0032)	-0,0049	0,220	No difference of AR
t-5 vs t+7	0,0057	-0,0025	0,0017	-0,0017	0,273	No difference of AR

	(0,0032)		(0,0000)			
t-4 vs t+1	-0,0024 (-0,0042)	-0,0018	-0,0025 (-0,0026)	-0,0001	**0,498**	No difference of AR
t-4 vs t+2	-0,0024 (0,009)	0,0066	-0,0025 (0,0007)	0,0032	0,054	No difference of AR
t-4 vs t+3	-0,0024 (-0,0022)	0,0002	-0,0025 (-0,0048)	-0,0023	0,861	No difference of AR
t-4 vs t+4	-0,0024 (-0,0059)	-0,0035	-0,0025 (-0,0021)	0,0004	0,125	No difference of AR
t-4 vs t+5	-0,0024 (0,0011)	0,0035	-0,0025 (-0,0002)	0,0023	**0,341**	No difference of AR
t-4 vs t+6	-0,0024 (-0,0019)	0,0005	-0,0025 (-0,0032)	0,0007	0,788	No difference of AR
t-4 vs t+7	-0,0024 (0,0032)	0,0056	-0,0025 (0,0000)	0,0025	**0,788**	No difference of AR
t-3 vs t+1	0,0052 (-0,0042)	-0,0094	0,0018 (-0,0026)	-0,0044	0,049	No difference of AR
t-3 vs t+2	0,0052 (0,009)	0,0038	0,0018 (0,0007)	-0,0011	0,414	No difference of AR
t-3 vs t+3	0,0052 (-0,0022)	-0,0074	0,0018 (-0,0048)	-0,0066	0,086	No difference of AR
t-3 vs t+4	0,0052 (-0,0059)	-0,0111	0,0018 (-0,0021)	-0,0039	0,009	There is difference of AR
t-3 vs t+5	0,0052 (0,0011)	-0,0041	0,0018 (-0,0002)	-0,002	0,797	No difference of AR
t-3 vs t+6	0,0052	-0,0071	0,0018	-0,005	0,059	No difference of AR

	(-0,0019)		(-0,0032)			
t-3 vs t+7	0,0052 (0,0032)	-0,002	0,0018 (0,0000)	-0,0018	0,135	No difference of AR
t-2 vs t+1	0,0099 (-0,0042)	-0,0141	-0,0021 (-0,0026)	-0,0005	0,469	No difference of AR
t-2 vs t+2	0,0099 (0,009)	-0,0009	-0,0021 (0,0007)	0,0028	0,709	No difference of AR
t-2 vs t+3	0,0099 (-0,0022)	-0,0121	-0,0021 (-0,0048)	-0,0027	0,770	No difference of AR
t-2 vs t+4	0,0099 (-0,0059)	-0,0158	-0,0021 (-0,0021)	0	0,121	No difference of AR
t-2 vs t+5	0,0099 (0,0011)	-0,0088	-0,0021 (-0,0002)	0,0019	0,683	No difference of AR
t-2 vs t+6	0,0099 (-0,0019)	-0,0118	-0,0021 (-0,0032)	-0,0011	0,146	No difference of AR
t-2 vs t+7	0,0099 (0,0032)	-0,0067	-0,0021 (0,0000)	0,0021	0,544	No difference of AR
t-1 vs t+1	0,0014 (-0,0042)	-0,0056	-0,0034 (-0,0026)	0,0008	0,484	No difference of AR
t-1 vs t+2	0,0014 (0,009)	0,0076	-0,0034 (0,0007)	0,0041	0,112	No difference of AR
t-1 vs t+3	0,0014 (-0,0022)	-0,0008	-0,0034 (-0,0048)	-0,0014	0,713	No difference of AR
t-1 vs t+4	0,0014 (-0,0059)	-0,0073	-0,0034 (-0,0021)	0,0013	0,229	No difference of AR
t-1 vs t+5	0,0014	0,0003	-0,0034	0,0032	0,726	No difference of AR

	(0,0011)		(-0,0002)			
t-1 vs t+6	0,0014 (-0,0019)	-0,0005	-0,0034 (-0,0032)	0,0002	0,336	No difference of AR
t-1 vs t+7	0,0014 (0,0032)	0,0018	-0,0034 (0,0000)	0,0034	0,775	No difference of AR

Note: Figures in bold show that hypothesis testing is based on data distribution patterns.

The above table is the result of the hypothesis test using the Wilcoxon Paired Sample test on the abnormal return of the stocks forming the LQ45 indices for 14 days of the observation period. The results show that during the 14 days of the observation period or 7 days before and 7 days after the Constitutional Court's decision on the 2019 Presidential Election lawsuit with a significance level (α) of 5% stated that there were no significant differences in average abnormal returns received by investors in before and after the decision of the Constitutional Court on the 2019 Presidential Election lawsuit. There is only one pair of days stating that there are differences in abnormal returns, namely at t+4. These results indicate that the day there was influence of information before t-3 of the decision of the Constitutional Court over the 2019 Presidential Election Lawsuit with a p-value of 0.009. The same results were also obtained from the breakdown by sector, data processed by the Paired Sample Test for each sector of the LQ45 indices forming shares showed the results that there were no significant differences in average abnormal returns both before and after the Constitutional Court's decision on the 2019 Presidential Election lawsuit. The difference in abnormal return that is found is in the mining sector, namely at t + 3 and t + 4 which is influenced by t-5, t-3, and t-2. However, overall the Paired Sample Test in the mining sector states that there is no significant difference in abnormal returns both before and after the Constitutional Court's decision on the 2019 Presidential Election lawsuit.

IV. CONCLUSIONS

This study aims to test the hypothesis, whether there are differences in abnormal returns both before and after the decision of the Constitutional Court over the 2019 Presidential Election lawsuit. Although at t + 4 there are differences in abnormal return

with an indication of the effect of t-3, the results of testing the hypothesis using non-parametric tests The Wilcoxon Paired Sample shows a p-value greater than alpha (α) so that the alternative hypothesis is rejected or H0 is accepted, meaning that there is no significant difference in the average abnormal return both before and after the Constitutional Court's decision on the 2019 Presidential Election lawsuit on the LQ45 indices forming stock period February 2019 - August 2019. The results of the sectoral breakdown conducted by the Paired Sample Test parametric test also indicate that there are no significant differences in the average abnormal return both before and after the Constitutional Court's decision on the 2019 Presidential Election lawsuit. Hypothesis test results still indicate that there is no significant difference in average abnormal returns both before and after the Constitutional Court's decision on the 2019 Presidential Election lawsuit with a p-value greater than alpha (α) then the alternative hypothesis is rejected or H0 is accepted. So in broad outline, political events as big as the Constitutional Court's decision on the 2019 Presidential Election lawsuit still had no significant impact on the Indonesian capital market. Even though there are various kinds of actions that disturb the stability of the country, investors still think that this event still does not provide important information content to consider. There are several limitations of this study. First, this study uses the market adjusted model to estimate the expected return, there are several models to estimate the expected return so that it does not rule out the possibility that the calculation also might produce different calculations such as the market model and the mean adjusted model. Second, there are several days of observation that are indicated to have an influence other than this event and therefore it is necessary to look for or study in more detail in relation to other events on these observational days. Third, this study only detected the effect of information on the mean level. Different results will be obtained if the detection is expanded at the variance level by using stock volatility or liquidity.

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