

Analysis of Knowledge About Capital Market Activities in Indonesia

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Abstract—The purpose of this article is to examine the knowledge of the Indonesian people about the capital market and the activities which occur therein. The methodology used to analyze the level of knowledge of Indonesian people about capital market activities is the purposive and convenience non-probability sampling method. The authors design questions to measure basic knowledge related to stock market activities, as well as questions to measure financial knowledge related to capital market instruments. The purposive and convenience non-probability sampling method was used to select respondents in this study. Questionnaires were implemented from various segments of Indonesia's educated and working population (teachers, lecturers, administrators, students, workers, traders and professionals in various economic sectors). The results showed that public awareness of the existence and effective function of the capital market in Indonesia was at a fairly low level. This is caused by the lack of public knowledge of all activities that exist in the capital market in general. Investors can become more active when they have adequate knowledge about various trading activities in the capital market. The findings in this study have the implication that understanding public knowledge is very important in the process of disseminating company information, corporate communication strategies, growing number of investors and issuers so that investment instruments in the capital market can be well received.

Keywords: public knowledge, capital market activities, investment, stocks

I. INTRODUCTION

In the implementation of a country's national economic development financing is needed from both the government and the community, the capital market is one alternative source of funding for both the government and the private sector. Governments that need funds can issue bonds or debt securities and sell them to the public through the capital market. Likewise, the private sector which in this case is a company that needs funds can issue securities, both in the form of shares and sell them to the public through the capital market. And the main purpose of the capital market is to facilitate trade in claims on the company's business, so that the capital market can have a significant impact on investment [1].

The capital market has an increasing role and function of the economy in the current modern financial system. Economic and financial integration must enable companies to access capital markets more sophisticated and competitive to accelerate economic growth.

The level of knowledge about capital market activities is directly related to capital market participation [2] but Indonesian Capital Market Conditions show that public awareness for the existence and effective functioning of the capital market in Indonesia is on a very low level.

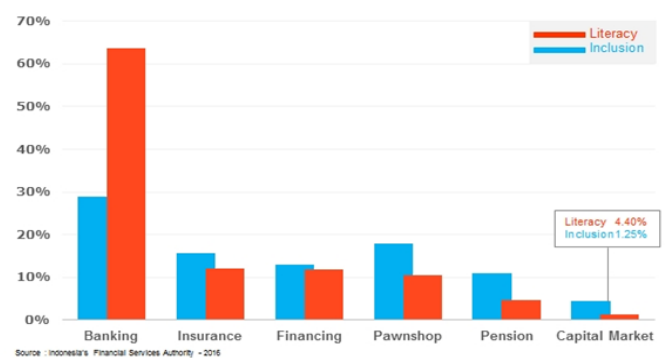


Fig. 1. Indonesian capital market conditions.

Based on the Results of the 2016 National Literacy and Financial Inclusion Financial Services Authority Financial Survey [3], the level of understanding (literacy) of the Indonesian people towards the capital market rose to 4.40% and the utility level of capital market products rose to 1.25%.

Economic growth greatly affects the increase in the ability of domestic investors to grow. In addition, the growth in the number of new issuers will also increase investor trust with various options for issuers.

Based on data from the Central Statistics Agency (BPS) Indonesia's economic growth in 2018 reached 5.17 percent higher than the achievement of 2017 [4]. This figure is also one of the highest achievements of Indonesia's economic growth since 2014. The parameters of the capital market growth are

increasing macroeconomic growth and net income growth of the issuer.

The development of the stock market does not directly affect economic growth in the short term, but the development of the stock market plays an important role to generate profits in terms of long-term economic growth. The Stock Exchange is a form of organized market that facilitates - increasing capital, trading of listed shares, developing products, increasing opportunities for investment of individual and institutional investors, free flow of market information and encouraging better corporate culture and behavior [5].

With the development of financial literacy knowledge, especially in the capital market, it reflects the information needs in the capital market industry. The development of capital market knowledge in Indonesia can have a positive impact in building the Indonesian capital market in global competition.

The research gap in the study show that Indonesian capital market literacy is very low level but the previous research found that the best development model for the Stock Exchange is the active participation of exchanges, governments and companies that invite investors and create trust for safe investments [6].

Therefore, the author raises the title "Analysis of Knowledge of Capital Market in Indonesia"

II. OBJECTIVES AND BENEFITS

The purpose of this article is to examine the knowledge of Indonesian people about the capital market and the activities that occur therein. By knowing the level of knowledge of the Indonesian people's capital market literacy, stakeholders can create policies and strategies for the existing problems and study them so that the Indonesian capital market can compete globally.

The results of this study can be used as a benchmark for success, evaluation material and as a reference, reference, guidance, input and consideration for stakeholders in the capital market industry in an effort to increase the number of active investors each year.

III. THEORETICAL BASIS

Investment in general is a term with several meanings relating to finance and economics, investment is also referred to as investment.

To support a deeper discussion about the analysis of capital market knowledge, the authors conducted a literature review or works that have a relationship with the problem to be studied. The related research can be seen in the following table:

TABLE I. RELATED RESEARCH

| No. | Researcher / Title | Results |
|-----|---|---|
| 1. | E., & Salami, K. [2]. Knowledge and Participation in Capital Market Activities: The Ghanaian Experience e. <i>International Journal of Scientific Research in Education</i> , 6(2), 189–203. Retrieved from www.gse.gh | The correlation between capital market development and economic growth shows that countries with an established capital market have greater gross domestic growth than countries that do not have them |
| 2. | Hamada, M., Sherris, M., & Hoek, J. van der. [7]. Dynamic Portfolio Allocation, the Dual Theory of Choice and Probability Distortion Functions. <i>ASTIN Bulletin</i> , 36(01), 187–217. https://doi.org/10.2143/ast.36.1.2014149 | Prospective investors who have adequate knowledge about financial market activities make rational asset allocation decisions to maximize their well-being in the short and long term |
| 3 | Ewing, B. T., & Payne, J. E. [8]. The response of real estate investment trust returns to macroeconomic shocks, 58, 293–300. https://doi.org/10.1016/S0148-2963(03)00147-4 | The breadth of the relationship between the stock market and macroeconomic factors found that shocks to monetary policy, economic growth, and inflation all lead to lower than expected returns. |
| 4. | Devereux, M. B., & Yu, C. [9]. Journal of International Money and Finance Evaluating the role of capital controls and monetary policy in emerging market crises q. <i>Journal of International Money and Finance</i> , 95, 189–211. https://doi.org/10.1016/j.jimonfi.2018.06.009 | Policy commitments are very important under a flexible exchange rate, but commitments (to capital tax) provide only small profits under the benchmark exchange rate. With a flexible exchange rate, policy makers impose an inflows of taxes immediately at the beginning of the crisis |
| 5. | Oprea, O., & Stoica, O.[10]. Capital Markets Integration and Economic Growth, 14(3), 23–35. https://doi.org/10.14254/1800-5845/2018.14-3.2 | Capital market integration has a positive impact on economic growth, and the main factors where the capital market positively influences economic growth are stock market capitalization, capital mobility, value trading, stock indexes, immigrants, and to a greater extent, smaller, foreign portfolio investments |
| 6. | Oyerinde, A. A. [11]. Foreign Portfolio Investment and Stock Market Development, 53(3). | The results show that there is a significant long-term positive relationship between foreign portfolio investment and stock market development. |

IV. METHODS

The purposive and convenience non-probability sampling method was used to select respondents for this study. These methods were chosen because they are easy and cheaper because they target respondents who can provide relevant information that will help solve the problem being considered [12]. This sampling method is used because the population is

too large to include every individual in the study. From quantitative analysis, conclusions can be drawn well and useful.

Questionnaires were implemented on a representative sample of 207 respondents from various segments of Indonesia's educated and working population (teachers, lecturers, administrators, students, workers, traders and professionals in various economic sectors).

The questions were carefully chosen to get a clearer picture and a more quality quantitative analysis of the actual conditions related to the fact how much the Indonesian population is familiar with the activities and operations of the exchange. The author designs questions to measure basic knowledge related to stock market activities, as well as questions to measure financial knowledge related to capital market instruments.

V. RESULTS AND DISCUSSION

The level of community participation in capital market activities and activities shows the level of knowledge of financial literacy in the capital market. The level of knowledge can be measured from the ability of investors and potential investors to understand capital market activities in operating and understand the various products offered in trading activities in the capital market. The results show that capital market products, especially stocks, are difficult to understand and complicated for investors who lack financial knowledge and experience. Therefore, individual investors need to have adequate financial knowledge and financial knowledge to make rational allocation decisions to improve investor welfare in the short and long term.

The results of answers to questions related to respondents' knowledge about capital market activities are shown in Figure 1. As many as 46% of 207 respondents stated that they had heard of the capital market but did not understand the activities and activities in the capital market. The respondents who had heard and understood activities in the capital market were 39%, while those who had never heard and did not understand the activities in the capital market were 15%.

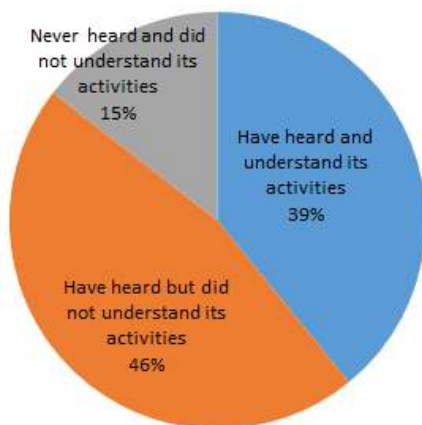


Fig. 2. Knowledge of capital market activities.

This shows that public knowledge about various activities, terminology and various terms in the capital market is not well understood.

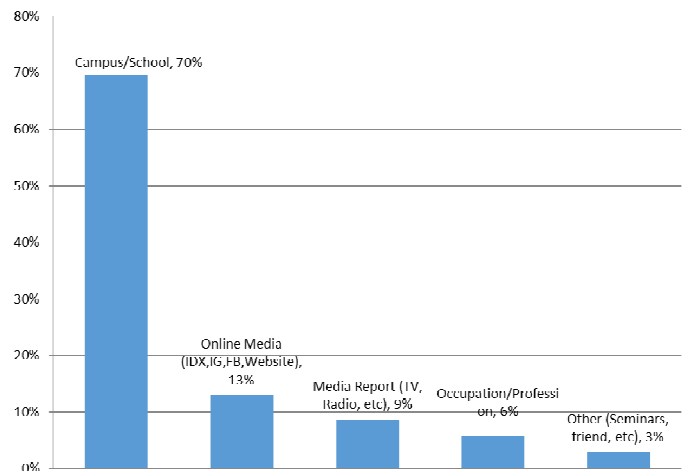


Fig. 3. Sources of knowledge about capital market activities.

Sources of knowledge about capital market activities are dominated by campuses / schools as much as 70%. This shows that the knowledge of financial literacy in particular the capital market through universities and schools has a fairly high role in the dissemination of information objectively. Then followed by 13% of online media, 9% of mass media reports, 6% of jobs. Profession, and 3% (seminars, friends, etc.).

The motivation to invest in capital market securities, can be seen from Figure 4 below:

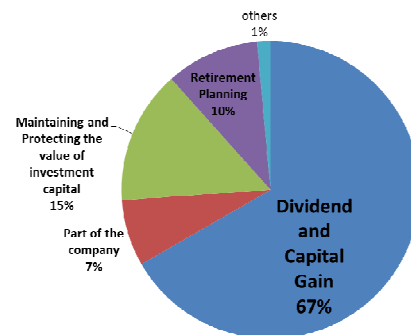


Fig. 4. Motivation to invest in the capital market.

The motivation of local investors to invest in the capital market is to get a dividend and capital gain of 67%. This shows that there are two dominant motivations of investors in the capital market, namely:

- Investors who have the motivation of "capital gain" exhibit profit-taking behavior where investors like short-term investments, speculative behavior, and carry out active strategies by considering macro factors such as issues, rumors, politics, conspiracies, insider trading, regulations, market anomalies, and others for short-term profits.

- Investors who are motivated to get dividends show the long-term behavior of investors.

Motivation to invest in capital market securities requires special knowledge and analytical skills about the performance of stocks to be selected in stock investments. As many as 15% of respondents want to maintain and protect the value of investment capital, followed by a 10% retirement plan, part of the company and another 8%.

While the reasons respondents did not invest in capital market securities can be seen in the picture below:

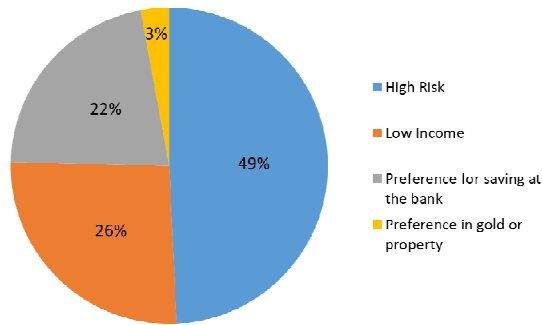


Fig. 5. Reasons for respondents not investing in the capital market.

The pie chart above shows that as many as 49% of respondents said they did not invest in securities under capital because of the high risk. This is supported by data [13] which states that investors are risk averters because when investors have a positive attitude to the risk of issuer's shares, investors act to avoid intentions in investing.

The results of a survey conducted by researchers show that there is a general lack of public education and business forms of the benefits of investing in securities and funding business through securities. This finding is consistent with studies [13] which state that investor behavior in decision making is influenced by risk perceptions regarding the negative potential contained in financial statement items.

Knowledge about capital market activities is needed so that investors and potential investors have adequate information in investing in the capital market. This is supported by [14] Information is a collection of public data, available to everyone in an objective way. Information can have a material impact on asset prices when combined with knowledge, direct experience and investor valuation. The concept of information can only be defined by relevant data at some point in the market, but must be related to the amount of professional knowledge (human intelligence) and the interpersonal dynamics of market players (emotions and feelings).

VI. CONCLUSION

The results showed that public awareness of the existence and effective function of the capital market in Indonesia was at a fairly low level. This is caused by the lack of public knowledge of all activities that exist in the capital market in general. Investors can become more active when they have

adequate knowledge about various trading activities in the capital market.

The findings of this study are supported by previous research [15] which states that there are several problems that cause low-level activity:

- the lack of a suitable structure and the number of issuers on the market;
- lack of suitable structure and number of investors in the market;
- low transaction value and capitalization;
- reduced value and a small number of financing transactions in the primary market;
- lack of offer of complete investment instruments in the market.

All these elements are interconnected and produce a causal relationship between them. A very important factor for developing the Indonesian Capital Market in global competition is the existence and function of the Stock Exchange. The Indonesian stock exchange must provide an organized, effective, transparent function, a secure securities market, risk diversification with various categories or levels of investors, offering a large number of different financial instruments, correct allocation of resources and control in management, protection of interests and instruments investor. That way, Indonesia will be able to meet its financial needs through market resources, not through fiscal and monetary ones.

The results of the analysis conducted show that the benefits of investing in securities are not well known by the people of Indonesia. For these reasons, a joint effort from the public and private sectors is needed to make the public aware of how capital markets work, including comparison of capital market investments with conventional investment vehicles and the risks and returns on capital involved in capital market investments. In fact, there is a need to organize various types of seminars and special courses for people who intend to invest more funds into financial instruments.

The findings in this study have the implication that understanding public knowledge is very important in the process of disseminating company information, corporate communication strategies, growing numbers of investors and issuers so that investment instruments in the capital market can be well received.

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