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The Effect of The Working Cabinet Reshuffle Volume II on Abnormal Return and Abnormal Trading Volume Activity of The Companies Listed in Jakarta Islamic Index (JII)

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ABSTRACT

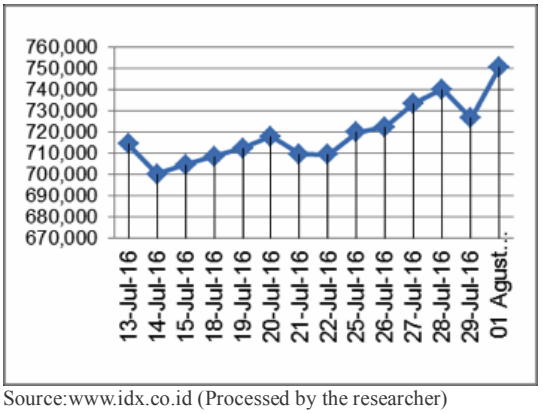
This study aims to examine the differences of reaction in the Jakarta Islamic Index (JII) before and after the announcement of the Working Cabinet Reshuffle Volume II on July 27, 2016. The study period was 21 days which consists of 10 days before the event and 10 days after the event. The method used in this study is event study with market adjusted model method that observes the market's reaction to the information of an announcement or publicity events. The results of the study show that there is a reaction at the abnormal return and abnormal trading before and after the announcement of the cabinet reshuffle which is the value of significance, so it can be concluded that the capital market is efficient with a weak form.

Keywords: event study; reshuffle; abnormal return; abnormal trading volume activity

1. Introduction

Political events such as the cabinet reshuffle are generally not difficult to predict. For instance, the ministers' performance that somehow mediocre or unfit for the field, and the president's explanation regarding the reshuffle plan, are some of the signs that suggest the existence of a political event. When reshuffle happens in a government cabinet, it will not interfere the stock market directly. However, the information about these events can be absorbed by capital market actors and influence the investors' decision making, which will lead to market reaction such as the adjustment of stock prices. Hence, political events such as cabinet reshuffle could indirectly affect the activity on the stock exchange. Moreover, it can either positively or negatively change the stock prices, which depends on the perceptions of the current and potential investors (Trisnawati and Diantini, 2012).

At this time, the Indonesian government under the leadership of President Joko Widodo with his cabinet called the Working Cabinet has experienced reshuffle of 2 times. The second reshuffle happened on July 27th, 2016, which resulted on the replacement of 12 ministers and one head of the investment coordinating council. Interestingly, at the second reshuffle, the Minister of



Source:www.idx.co.id (Processed by the researcher)

Figure 1. JII Price Index from July 13 - August 1st, 2016

Finance was also reshuffled from Bambang Brodjonegoro to Sri Mulyani who at that time was the manager of World Bank. In his website, Argha (www.creative-trader.com), stated that at first, many people were skeptical of the news that said Sri Mulyani would become the Minister of Finance replacing Bambang Brodjonegoro since previously there were many similar rumors before the cabinet reshuffle. However, after the rumor was confirmed and Sri Mulyani was chosen to replace Bambang Brodjonegoro as the Minister of Finance, it immediately received a positive reaction in the capital market. This is indicated by the rate of Composite Stock Price Index/Indeks Harga Saham Gabungan (IHSG) which was at the announcement of the reshuffle of Working Cabinet Volume II reached the highest level of 5,301.93. Daily stock transaction was recorded that daily transactions of shares reached Rp 10.1 trillion. This also explains that the minister reshuffle Volume II is a positive signal on the return of Sri Mulyani becoming the Minister of Finance which is expected to bring a positive influence in the economic growth in Indonesia. It is also responded by the Islamic capital market which is shown in JII price by the curve Figure 1.

This study aims to analyze the movement of markets and trade that are influenced by an event by using event study method. Event study is used to measure the movement of stock prices in the capital market if the occurrence of such events could obtain a return of an unusual investment which is received directly by investors resulting from the occurrence of an event that shown by abnormal return and trading volume activity. It will examine the behavior of Islamic stocks, the one listed in Jakarta Islamic Index on the days circa the occurrence of Working Cabinet Volume II reshuffle on July 27th, 2016.

2. Literature Review

2.1 Efficient Market Theory

Gumanti and Utami (2002) explain that efficient market theory was first discovered by Fama in 1970. In this case, the market is a money market or capital market. A market is considered that it is efficient if no one, whether from individual investor or institutional investor, will be able to get an abnormal return, after adjusting for risk, using existing trading strategies. That means, the prices formed in the market reflects the existing information or “stock prices reflect all available information”. The first circle represents any information which is relevant to a stock

review that can be studied and relevant to stock valuation. The first circle is part of the second circle states that the information is available to public. Furthermore, the second circle is a part of the third circle, which states that all the information that also include secret information of insiders. Each of these three types of market efficiency forms assumes the different types of information in reflecting stock prices.

2.2 Efficient Market Forms

Fama (1970) in Tandelilin (2010: 223) clarified the efficient market forms into three efficient market hypothesis (EMH), as follows:

- Efficiency in the weak form, which means all information in the past (history) will be reflected in the price that is formed now.
- Efficiency in the form of semi strong, which means that the current stock market price has reflected historical information added by all published information (e.g. earnings, dividends, stock split announcement, issuance of new shares, financial difficulties experienced by the company and other published public events which affect the company's cash flow in the future).
- Efficiency in the strong form, which means that the current stock market price has reflected historical information and all published information including unpublished information. In an efficient market, strong form there will not be an investor who can get an abnormal return.

2.3 Abnormal Return Stock

Abnormal return or excess return is the advantage of what actually happens to normal return, where normal return is expected return (the return is expected by the investor, thus return which is not normal (abnormal return) is the deviation between the actual return and the expected return (Hartono, 2010: 579). Thus, abnormal return is the deviation between the real return and expected return which is formulated as follows:

$$AR_{It} = R_{It} - E\,[R_{It}\,] \qquad (1)$$

where:

AR : abnormal return of –i security in –t event period
R_{it} : actual return that happens in –i security in -t event period
$E\,[R_{It}\,]$: expected return of the -i securities in -t event period

2.4 Trading Volume Activity

The TVA approach can be used to test the efficient market hypothesis on weak form. This is because in a market which is not yet efficient or already efficient in the weak form, price changes do not immediately reflect the existing information, so that researchers can observe the reaction of capital markets through the movement of trading volume on the studied capital market. In event study, trading volume activity (TVA) is calculated based on the ratio of the number of shares traded in the event window or period of observation towards the circulating

number of shares. Mathematically, TVA is formulated as follows:

$$TVA_t = \frac{totalemitentstocktradedonthedayD}{totalemitentstocklistedinJIIonthedayD} \quad (2)$$

2.5 *The Relationship of Minister Reshuffle with Abnormal Return*

Ministers reshuffle as one form of government-related announcement which may lead to market reactions. Tandelilin (2010: 223) stated that as a representation of the market reaction to an announcement (publication), there will be abnormal return (abnormal income) around the announcement (publication).

2.6 *The Relationship of Minister Reshuffle with Trading Volume Activity*

Minister reshuffle as a form of announcement which contains information on the market will cause the market to form a new balance. A new equilibrium is formed from stock performance in the capital market, which one of them can be shown from trading volume. This market reaction will be shown with abnormal trading volume activity, which is the deviation of expected TVA towards actual TVA. Information containing positive signals will be positively responded by this variable, that there will be a positive ATVA, which means that the market responds positively with a high volume of stock trading (liquid stock) when compared to the number of shares recorded towards all transactions in the market and vice versa.

2.7 *Event Study*

Hartono (2010: 555) explained that the study of events (event study) is a study that studies the market reaction to an event which information is published as an announcement. Event study aims to measure the relationship between an event which affects securities and income (return) from the securities (Tandelilin, 2010).

2.8 *Hypotesis of The Study*

H_1: There is a capital market reaction characterized by the differences of the average abnormal return which is significant to the companies listed in Jakarta Islamic Index before and after the announcement of Working Cabinet Reshuffle Volume II on July 27th, 2016.

H_2: There is a capital market reaction characterized by the differences of the abnormal trading volume activity which is significant to the companies listed in Jakarta Islamic Index before and after the announcement of Working Cabinet Reshuffle Volume II on July 27th, 2016.

3. Research Methodology

To analyze the issue of Working Cabinet Reshuffle Volume II on abnormal return and abnormal trading volume activity of the companies listed in Jakarta Islamic Index (JII), this study employed a quantitative method. The statistical method used in this research is event study. The population of this study is all companies listed in the Jakarta Islamic Index during the

research period. Sampling in this research is purposive sampling. The data used in this research is secondary data. Data used in this research is data of the announcement date and company data listed in Jakarta Islamic Index in the observation period, which was obtained by accessing website www.idx.co.id, www.finance.yahoo.com, and other relevant sources of literature, research and article from the internet.

3.1 The Event of The Working Cabinet Reshuffle Volume II Announcement

The Working Cabinet Reshuffle Volume II is a predictable political event by looking at the performance of a minister but the information of this event can be absorbed by investors, so the announcement of the minister reshuffle has implications for both positive and negative reactions depending on how investors capture the information as good or bad news. The announcement of The Working Cabinet Reshuffle II event falls on 27 July 2016 is an event date in this event study. This variable is a reference measurement of other variables where the stock price in the event date is stated in t-0.

3.2 Average abnormal return (AAR)

Average abnormal return is the average abnormal return which is currently analyzed. Average abnormal return is calculated using formula:

$$\overline{AAR_t} = \frac{\sum_{i=1}^{n} AR_{it}}{n} \tag{3}$$

$\overline{AAR_t}$: average abnormal return at t period
AR_{it} : abnormal return i stock at t event period
n : amount of samples/amount of emitent observed

3.3 Abnormal trading volume activity (ATVA) is an abnormal volume of stock trade by investors which is used to see any capital market reaction or stock price changes to published information. ATVA can be calculated using the following formula:

$$ATVA_t = \text{Actual } TVA_t - \text{expected } TVA_t \tag{4}$$

3.4. Hypothesis Test

Doing and performing t-test for daily average abnormal return data during the observation period. One sample t- test is used to see the average abnormal return significance during the observation period of the listed companies in JII and to test the paired sample t-test for the average abnormal trading volume activity data with the aim of looking at the significance of the volume of abnormal return of stock trade during the period of observation of companies listed in JII.

4. Results

Statistical Test Analysis of Average Abnormal Return
The result of statistical calculation with test tool of SPSS program ver.16, the result of output one sample t-test of average abnormal return is obtained and shown in the Table 1.

Table 1. Statistical Test Result of Average Abnormal return (AAR) one sample t-test

Event date	*Average Abnormal Return*	*Test Value = 0*		Status
		Sig. (2-tailed)	T	
t-10	0.008756	0.14	1.52	Accepted
t-9	-0.003913	0.287	-1.086	Accepted
t-8	-0.003899	0.345	-0.96	Accepted
t-7	0.010146	0.132	1.553	Accepted
t-6	-0.007594	0.096	-1.724	Accepted
t-5	-0.023411	0.188	-1.351	Accepted
t-4	-0.005302	0.088	-1.769	Accepted
t-3	0.004228	0.109	1.656	Accepted
t-2	0.005487	0.061	1.953	Accepted
t-1	-0.00519	0.18	-1.374	Accepted
t0	0.001353	0.72	0.362	Accepted
t+1	0.00679	0.153	1.47	Accepted
t+2	-0.004053	0.409	-0.838	Accepted
t+3	-0.002994	0.507	-0.672	Accepted
t+4	-0.004057	0.375	-0.902	Accepted
t+5	0.005079	0.136	1.534	Accepted
t+6	0.006293	0.232	1.222	Accepted
t+7	-0.00141	0.68	-0.416	Accepted
t+8	0.000231	0.952	0.06	Accepted
t+9	0.008562	0.075	1.852	Accepted
t+10	-0.001437	0.705	-0.382	Accepted

Source: Output SPSS 20, processed (2017)

During the period of observation of 21 trading days from t-10 to t+10, the overall data shows the probability value is greater than (α) = 0.05 or 5%. Therefore, it can be concluded that H0 is accepted and H1 is rejected. It demonstrates that the average abnormal return of the companies listed in JII is not significant around the date of the announcement of The Working Cabinet Reshuffle Volume II on July 27th, 2016. Considering the result of statistical test above, it can be concluded that market does not significantly react to the event of The Working Cabinet Reshuffle Volume II announcement which is proven by the abnormal return value that is not significant around the date of the announcement.

Statistical Test Analysis of Average Abnormal Trading Volume Activity

The result of statistical calculation with test tool of SPSS program ver. Output of testing average abnormal trading volume activity with paired t-test is obtained and shown in the Table 2.

Table 2. Statistical Test Result of *Paired t-Test Correlation* on *Average Abnormal Trading Volume Activity*

	Average Abnormal Trading Volume Activity before the announcement of The Working Cabinet Reshuffle Volume II	*Average Abnormal Trading Volume Activity* after the announcement of The Working Cabinet Reshuffle Volume II
mean	0.002430	0.002570
Standard Deviation	0.00015699	0.00019922
T	-0.186	
df	9	
sig (2-tailed)	0.856	
Status	Not significant	

Source: *Output SPSS ver*. 20, processed (2017)

This table shows the average abnormal trading volume activity of share which is owned by the companies listed and registered in JII for 10 days before and after the announcement. At 10 days before the announcement (t-10 to t-1) is obtained the average abnormal trading volume activity of 0.002430 or 0.243% of all emitent stocks listed on the market. While at 10 days after the announcement (t+1 to t+10) is obtained the average abnormal trading volume activity of 0.002570 or 0.257% of all emitent stocks listed. The average abnormal trading volume activity before and after the announcement has increased and showed that there are differences before and after the announcement. It indicates that the market reacts on the existing event. Although the average abnormal trading volume activity increases, but its test result of JII's share before and after the event statistically obtains t=-0.186 with significance level of 0.856 or well above 0.05. The result of this research shows that there is no significant change in stock trade reaction. Thus, the result is accepting H0 and rejecting H2.

5. Discussion

The discussion of the research results is based on one sample t-test to test and examine the hypothesis about the reactions of the listed companies stock in the Jakarta Islamic Index on the event of Announcement and paired test of sample t-test to test the difference of trading volume activity stock commerce before and after the date of the announcement. The presence or absence of market reaction to information received will be seen on the presence or absence of differences in abnormal returns around the date of the announcement and the presence or absence of trading volume activity differences before and after the announcement date.

Figure 2 above shows a positive reaction occurred before the announcement (t-3 to t-2), at the announcement (t0), and after the announcement (t+1). This indicates that the market considers the reshuffle announcement to signal the existence of good information on stock exchange activity. Although at t-1 the average value is negative. It happens because there is no clarity about the problem of the cabinet reshuffle volume II or there are still many rumors. However, on the day of the announcement, the AAR value turned positive. This could be the result of a clear certainty of the cabinet reshuffle. Moreover, the election of Sri Mulyani replaced since

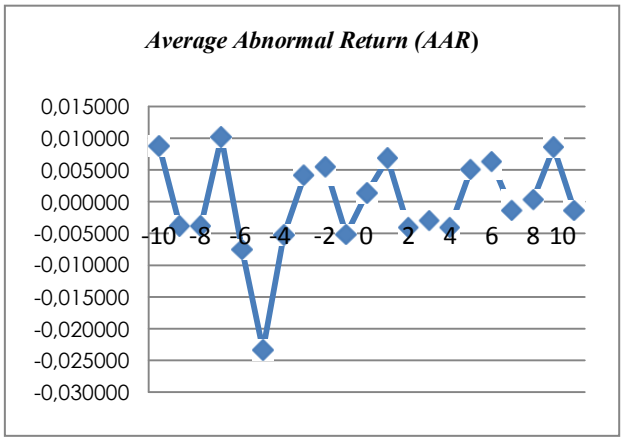


Figure 2. Average Abnormal Return Graph of All Emitents in the Observation Period

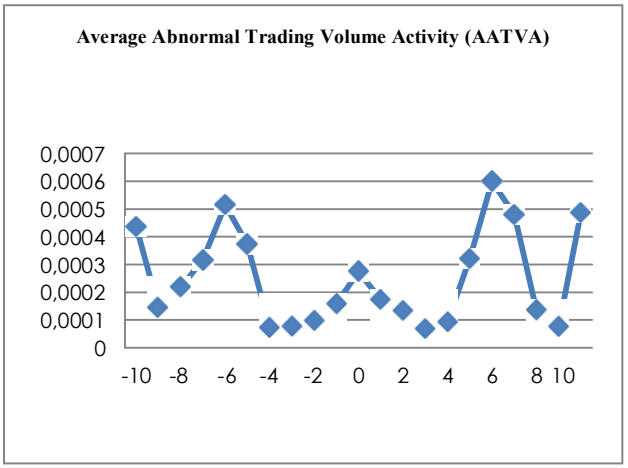


Figure 3. Average Abnormal Trading Volume Activity (AATVA) Graph of All Emitents in The Observation Period

public has known Sri Mulyani as a person who is clean, smart and capable to be the Minister of Finance of Indonesia in the previous government era. Hence, the investors believe that Sri Mulyani will bring positive changes in the Indonesia's economy.

Figure 3 above shows the market reaction before and after the announcement which is indicated by the average abnormal trading volume activity. It is where the average value of abnormal trading volume activity after the announcement date is greater than before the announcement, but there are no significant changes or not too flashy. This is in line with the results of the study of average abnormal trading volume activity by looking at the test results of paired sample t-Test statistics. The results show that there is not significant difference in stock activity volume trading before and after the announcement of The Working Cabinet Reshuffle II, shown by a very large probability number which is 0.856.

6. Conclusion

The announcement of Working Cabinet Reshuffle II on 27 July 2016 is not reacted positively by the average abnormal return of the emitents on the Jakarta Islamic Index. This is indicated

by an insignificant average abnormal return (AAR) around the date of the announcement of the Working Cabinet Reshuffle II on 27 July 2016 at the companies listed in the Jakarta Islamic Index because the results of statistical calculations on the whole data have a higher probability value greater than 0.05.

The announcement of the working cabinet reshuffle volume II is not reacted positively by the average abnormal trading volume activity of the emitents listed in the Jakarta Islamic Index. The result of the research on the abnormal trading volume activity with paired sample t-test statistic shows that there is no significant difference in trading volume activity stock before and after the announcement of the working cabinet reshuffle Volume II with probability value more than 0.05 or 0.856

Therefore, it can be concluded that the market reaction to the announcement of the working cabinet reshuffle volume II on 27 July 2016 has no significant impact on average abnormal return and abnormal trading volume activity for stocks listed in Jakarta Islamic Index (JII). Thus, the results of this study indicate that the Indonesian capital market is only able to reflect the past prices and not able to reflect published information such as the announcement of the Working Cabinet Reshuffle Volume II on July 27th, 2016.

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