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A Testing of Efficient Markets Hypothesis in Indonesia Stock Market

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Abstract

This research's objective is to see market efficiency form on Indonesia stocks market. Using daily stocks price data gathered from LQ45 Index, Jakarta Islamic Index (JII), and Kompas 100 Index during the periods of 2013 until 2014. Statistical test using run test and serial correlation test to examine weak form efficiency. The result findings showing that Indonesia stock market has been categorized as weak form efficiency. The statistical testing was done and the result are: 1) the daily stocks price movement is random walk, 2) the stock price movement has no correlation between the present day and the previous day.

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1. Introduction

Stock markets have an important role for country development. Stock markets offerings investment alternatives for investors and funding sources for the company. Indonesia stock market performances over the past five years has increased, reflected in Jakarta Composite Index (JCI). Financial Services Authority (OJK) states that in the last five years, JCI is still better than the development of the global stock market indices such as the Australian (ASX), Malaysia (KLCI), Singapore (STI) and others. It is referenced from the point of JCI in 2015 showing an increase of 32% compared with the year 2010 shows the point at 3203.51, while in 2015 demonstrate the point at 4228.501 per August, 2015 (www.idx.co.id, 2015)

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On the other hand, the stock market in Indonesia is experiencing a slowdown in 2013. The JCI point (3.07%) was ranked third worst after China (Shanghai) amounted to -7.72% and Thailand (SET) by -7.73%. This is due to the pressures of global and domestic conditions. Later seen in particular in 2015, the point of JCI since the opening of the market until the month of August, the point of JCI continued to decline. It is the impact of the Greek debt crisis, the condition of the domestic Chinese market and other conditions. Yet overall, Indonesian stock market performance showed an increase over the last five years.

Increased performance of the stock market in Indonesia can occur due to several event such as a change of government and the emergence of related information immediately enforced ASEAN Economic Community (AEC). It can affect financial performance due to such events as a basis in the decision making in the future (Bodie *et al.*, 2014; Gitman and Joehnk, 2008). According to regulations, companies are also required to be more open to the public to provide information related to company performance information (RI Law, UU No.14 of 2008 on Public Information). This regulation will provide good news for the public and investors to invest their money.

1.1 Previous Study and Literature Review

As stated by Fama (1970) regarding the efficiency of stock markets stating that a market can be efficient if all market participants get income equal to one another, no matter the investor is a beginner or an expert. While, a market is efficient, the financial resources will be allocated in an economic way. Efficient stock markets encourage individuals to invest in stocks and help firms' managers to maximize wealth of stockholders (Saeedi *et al.*, 2012). The three levels of market efficiency entitled "weak-form, semi-strong-form, and strong form" require different levels of information to test their relevance (Fama, 1970; Fama and French, 1989).

In this paper, we concentrate on the weak-form, which asserts that stock prices fully reflect all information contained in the past price history of the market. This version of the hypothesis implies that trend analysis is fruitless. Past stock price data are publicly available and virtually costless to obtain. The weak-form hypothesis holds that if such data ever conveyed reliable signals about future performance, all investors already would have learned to exploit the signals (Bodie *et al.*, 2010). Fama (1970) defined the weak form by focusing on three points are (1) tests for return predictability; (2) event studies; and (3) tests of private information (Jarrett, 2010).

Previous studies have been done to test the weak-form efficiency in Indonesia. Husnan (1990), Legowo (1998), Istiana (2000), Didik (2005), Astuti (2008), and Nasruldin (2011). Results found that Indonesia has a weak-form efficiency. However, this is contrast with Dewi (2009) that found different results in his research entitled Capital Market Efficiency Test Through Movement Evaluation LQ-45 index in Indonesia Stock Exchange. Using the ARIMA methods, the results of these studies indicate that the Indonesia stock market couldn't be said to be efficient in the weak form for the return movement of the LQ-45.

1.2. Research purpose

In this research, we interest to examine the movement of stock prices of listed companies on the Jakarta Islamic Index (JII), LQ45, and Kompas 100 Index over the period 2013-2014. In addition, to determine the relationship changes daily stock prices of some of the index during the period 2013-2014. This study focuses on the daily stock price movements from 3 index in the Indonesia Stock Exchange as well as capital market efficiency theory test. This research using run test and serial correlation test which are the method recommended by some researchers to conduct testing efficiency in weak form (Fama, 1970; Hartono, 2013). Differences of this study with previous research that is larger sample size, larger index, and different periods, namely the period 2013 to 2014.

2. Research Methodology

This study using daily stock price data of listed company in LQ-45 Index, Kompas 100 Index and JII (Jakarta Islamic Index) in the period 2013 to 2014. The sample of the study were purposively selected to select the proper sample based on criteria the following: a). Company are listed in the index during the period 2013-2014, and b). the sample represents the entire population that is actively traded in several indexes, at least 3 times listed (60%) over the period 2010 to 2014. There are sixty-eight companies selected samples meet the criteria, namely Jakarta Islamic Index

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