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The capital market reaction to the Indonesian presidential election on February 14, 2024 on The LQ45 Index of The Indonesia Stock Exchange

Wisnu Armadenis * and Saryadi

Department of Business Administration, Faculty of Social and Political Science Diponegoro University, Semarang, Indonesia.

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Abstract

On February 14, 2024, the Presidential Election of the Republic of Indonesia was held. The presidential election is a crucial moment that may influence various future policies, including economic and political decisions. This political event has the potential to significantly impact the capital market, especially stocks listed in leading stock indices such as LQ45 on the Indonesia Stock Exchange. This research is motivated by the importance of understanding the capital market's reaction to political events using Abnormal Return and Trading Volume Activity (TVA) indicators. This study employs an event study method with secondary data in the form of daily closing stock prices of companies listed in the LQ45 index for the February period. The analytical techniques used include descriptive statistics, normality tests, and the Wilcoxon Signed Rank Test. The results of the study indicate that there are no significant differences in Abnormal Return and Trading Volume Activity (TVA) before and after the Presidential Election. These findings suggest that the Presidential Election on February 14, 2024, did not have a significant impact on the LQ45 index. Therefore, investors are advised to analyze and evaluate all information carefully to ensure that investment decisions are made accurately and not based on incorrect or misleading information.

Keywords: Event Study; Abnormal Return; Trading Volume Activity (TVA); Presidential Election

1. Introduction

The capital market is a type of market that has activities related to securities transactions. According to Law No. 8 of 1995, related to the capital market. The capital market is an activity related to the public offering and trading of securities issued, as well as institutions and professions related to securities. As one of the investment instruments, the capital market can never be separated from the impact of the countless events that are around its environment, economic events often interfere with the movement of the direction of the capital market to go up or down. Even non-economic issues often make investors have to be alert to respond to existing problems and poured into their analysis for the capital market in the future (1).

Political events are one of the aspects of the non-economic environment that can affect the capital market, because the dynamics of the political situation basically have an influence on the economic conditions of a country (2).One of the political events that has a considerable influence is the Presidential Election. Political circumstances such as the election of the head of state are one of the factors that technically affect the capital market (3). The February 14, 2024 Presidential Election is interesting to study because it is the largest democratic party in Indonesia which only occurs every five years to elect a new head of state. In addition, the three pairs of presidential candidates also have different policies.

* Corresponding author: Wisnu Armadenis.

Ahead of the 2024 presidential election, various issues have emerged in the community, including allegations of abuse of authority, democracy trapped in certain interests, and concerns regarding the continuation of dynastic politics. The recent ruling of the Constitutional Court (MK) on October 16, 2023 regarding the minimum age limit for presidential and vicepresidential candidates is considered to give an advantage to Gibran Rakabuming, President Joko Widodo's eldest son, who was 36 years old at the time, allowing him to run in the 2024 presidential election. This further strengthens the accusation that Jokowi is building dynastic politics. In addition, ahead of the 2024 presidential election, political polarization and the rapid spread of misinformation on social media have also become issues that are widely discussed (4). The existence of this information makes the capital market increasingly unpredictable, the majority of investors prefer to "wait and see" in advance of these political events until political conditions in Indonesia stabilize. An event or announcement containing valuable information can trigger market reactions or responses upon its release (5). Investors as recipients of announcement information provided by issuers need to understand the content and purpose of each announcement, so that investors can plan strategies to be taken regarding the announcements made by issuers (6).

How the ability of the capital market to react to existing events (information) is reflected in the movement of stock prices and trading volumes that will determine the level and form of capital market efficiency (7). In this study, it can be shown from the difference in abnormal return and trading volume activity that occurs during related events. Abnormal return is the excess of the actual return on normal returns (8). Normal returns are expected returns or returns expected by investors. Abnormal returns are caused by an announcement that has information that can affect the market in this case the 2024 presidential election. capital market reaction to information can also be seen through movement parameters (Trading Volume Activity). Trading volume activity is the number of shares traded in a certain period (1). The amount of transaction volume changes depending on investor interest in making a transaction in the capital market. The difference between the two variables is in the measuring instrument tested to measure the reaction to the market with an event or event.

Based on the background description above, it is interesting for the author to examine further in order to find out whether there is an influence on abnormal returns and Trading Volume Activity (TVA) of companies incorporated in the LQ45 index on the Indonesia Stock Exchange for the period before and after the 2024 presidential election. Therefore, the researcher took the title "Capital Market Reaction to the Presidential Election of February 14, 2024 on the LQ45 Stock Index on the Indonesia Stock Exchange".

2. Study literature

2.1. Event Study

Event study is a study of market reactions to an event whose information is published as an announcement (8). Event study, which is a research method that uses financial market in information to measure the effect of events on firm value as reflected by stock prices and transaction volumes (9). Event in event studies include economic and non-economic events.

2.2. Signaling Theory

Signaling theory is that information published as an announcement will provide a signal for investors in making investment decisions (8). The signal can be in the form of good news and bad news. Therefore, with information, investors are expected to analyze the quality of a company. Generally, companies that have good quality always provide signals in the form of information to the public.

2.3. Market Efficiency Theory

Market efficiency theory is a condition where a market reacts to information to reach a new equilibrium price (8). If the market reacts quickly, the market is called an efficient market. In this concept, it can be seen to what extent information has been distributed to the public with stock price movements. There are three forms of market efficiency formed from past information, currently published information and private information, namely, weak form market efficiency, semistrong form market efficiency and strong form market efficiencyResults and discussion (10).

2.4. Shares

Shares are proof of capital ownership in a company or limited liability company, entitling the holder to claims on the company's income, assets, and participation in the General Meeting of Shareholders (GMS) (11). Shares are proof of partial ownership of the company. Shares are in the form of a piece of paper that proves that the owner of the paper signifies the ownership of a person or entity in a company or limited liability company that issues the securities (8). The percentage of ownership of a person or entity is determined by how much capital investment is invested in the company or limited liability company. Company shares can be purchased if the company has been listed or listed on the Indonesia Stock Exchange. the capital market has three types of shares, namely common stock, preferred stock and treasury stock.

2.5. Stock Return

Return is the result obtained from investment (12). There are 2 forms of return, namely actual return and expected return. Returns that have occurred are referred to as actual returns, and are calculated using historical data. Meanwhile, expected return is the return expected by investors in the future. There are 3 components that form returns, namely capital gains, capital losses and dividends.

2.6. Reaction Market Capital

Capital market reaction is a change in investors' beliefs on the available information (8). In this case, the market reaction can be seen through changes in stock prices when they exceed normal conditions, causing abnormal returns. Market reaction can be influenced by a variety of information, both economic and non-economic. The measurement of the reaction of the capital market can be seen through several indicators such as, statistical testing, abnormal returns, testing private information and testing technical trading rules.

2.7. Abnormal Return

Abnormal return is the excess of the actual return that occurs against the normal return (8). Abnormal return is the difference between the actual level of return and the expected level of return (13). The difference in return can be in the form of positive return or negative return. Abnormal Return generally occurs when there are economic and non-economic events or information that affect the value of shares and create a reaction by investors in the form of an increase or decrease in stock prices. The following is the Abnormal Return calculation formula for stock I on day t:

$$ARit = Rit - E\,[Rit]$$

2.7.1. Description

- ARit = Abnormal return for stock i in the event period
- Rit = Actual return for stock i in event period t
- E [Rit] = Expected return for stock i for the tth event period.

2.8. Actual Return

Realized return or actual return is the return that occurs at time t which is the difference between the current price relative to the previous price. The following is the actual return calculation formula:

$$R_{it} = (P_{it} - P_{it-1})/(P_{it-1})$$

2.8.1. Description

- Rit = realized return that occurs for stock i in the event period
- Pit = stock price i in the event period
- Pit - 1 = stock price i in event period t-1

2.9. Expected Return

Expected return is the return used for investment decision making. Expected return in this study can be calculated using the market-adjusted model because this study uses the LQ45 market return. The following is the expected return calculation formula:

$$〖E(R〗 it) = R_{mt}$$

2.9.1. Description

- E(Rit) = expected return of stock price at period event to-t
- Rmt = Market return on period event t

2.10. Trading Volume Activity

Trading Volume Activity is a measure of the volume of certain shares that are being traded, which can indicate the ease of trading these shares (8). Trading Volume Activity represents the size of the number of shares traded in a certain period. The following is the Trading Volume Activity calculation formula:

$$TVA = \left(\sum \text{saham perusahaan i yang diperdagangkan waktu t}\right)$$

$$\left(\sum \text{saham perusahaan i yang beredar pada waktu t}\right)$$

2.11. INDEX LQ45

This index was formed only from the 45 most actively traded stocks (8). The considerations underlying the selection of stocks included in the ILQ45 are liquidity and market capitalization with criteria, namely, the average share transaction is in the order of the 60 largest in the regular market for the last 12 months, during the last 12 months, the average market capitalization value is in the order of the 60 largest in the regular market for the last 12 months, has been listed on Bei for at least 3 months.

3. Method

This research uses event studies, the event study method to test the market reacts to events as a result of information announcements (14).This study uses a window period or event window of t-7 days before February 14, 2024 to find out whether there is important information before the event, t-0 on February 14, 2024, namely during the Indonesian presidential election, and t+7 after February 14, 2024 to find out the extent of abnormal returns and changes in trading volume activity in the company.

The data used is secondary data taken from the daily closing price obtained from the official website of the Indonesia Stock Exchange. The population of this study are companies listed in the LQ45 index for the February period with criteria determined in order to obtain secondary data. The analysis techniques used include descriptive statistics, normality test, and wilcoxon signed rank test. Hypothesis is a temporary answer or conclusion to the formulation of research problems and is based on empirical data obtained through data collection (15). The hypotheses formulated in this study are

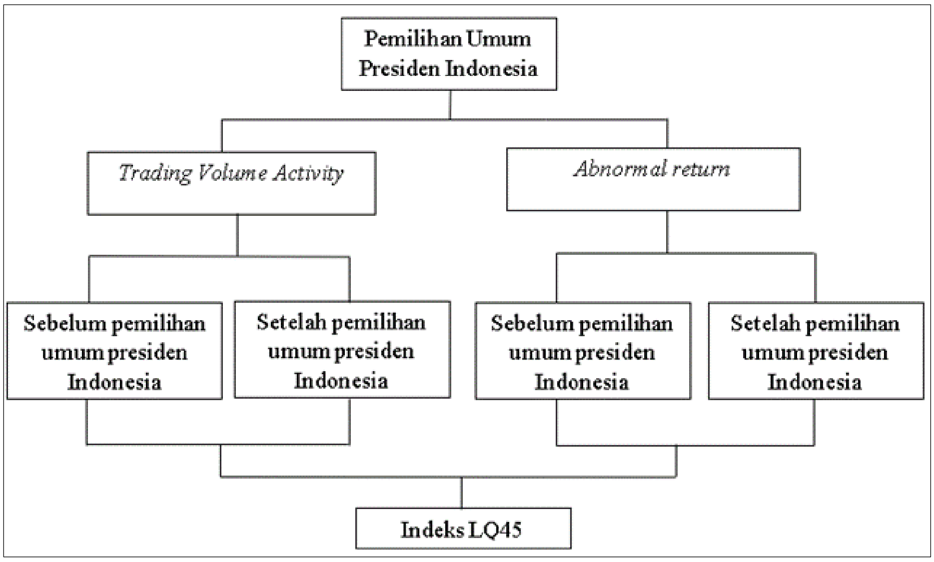

Figure 1 Hypothesis Model

- H1: There is a difference in Abnormal Return on stocks included in the LQ45 index before and after the Indonesian presidential election on February 14, 2024.
- H2: There is a difference in Trading Volume Activity of stocks included in the LQ45 index before and after the Indonesian presidential election on February 14, 2024.

4. Result

The normality test is used to determine whether each variable follows a normal distribution (16). In this study, the normality test is necessary to assess whether each variable is normally distributed. The normality test for Average Abnormal Return (AAR) and Average Trading Volume Activity (ATVA) in this study was conducted using the Shapiro-Wilk test.

Table 1 Shapiro-Wilk Normality Test on Average Abnormal Return (AAR) and Average Trading Volume Activity

Tests of Normality						
	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
AR_Before	0.124	45	0.081	0.956	45	0.083
AR_After	0.175	45	0.001	0.810	45	0.000
TVA_Before	0.303	45	0.000	0.481	45	0.000
TVA_After	0.309	45	0.000	0.461	45	0.000

Source: processed data, 2025

Based on the Shapiro-Wilk normality test on the average abnormal return, the data consists of 45 samples each. The results indicate that the samples follow a normal distribution before the event, with a significance value (Sig.) greater than 0.05, specifically 0.083. However, the samples do not follow a normal distribution after the event, with a significance value of less than 0.05, specifically 0.00. Since one of the samples does not follow a normal distribution, the next step is to conduct the Wilcoxon Signed Rank Test.

Based on the Shapiro-Wilk normality test on the average trading volume activity, the data consists of 45 samples each, and the results indicate that the samples do not follow a normal distribution, with a significance value of less than 0.05, specifically 0.00. Since the samples do not follow a normal distribution, the next step is to conduct the Wilcoxon Signed Rank Test.

Testing the abnormal return and trading volume activity variables in this study used the Wilcoxon signed rank test. From the results of data processing that has been done, the following are the results of the data analysis

Table 2 Wilcoxon Signed Rank Test Total Test on Abnormal Return and Trading Volume Activity

Variable	Statistic Before	Statistic After	Sig (2-tailed)	Information
Abnormal Return	0.956	0.810	0.672	Not Significant
Trading Volume Activity	0.481	0.461	0.668	Not Significant

Source: processed secondary data, 2025

In table 2, testing the total Abnormal Return variable, there is no significant difference in the February 14, 2024 Presidential Election event. This is evidenced by the test results using the Wilcoxon Signed Rank Test with a Z value of -0.423 and Asymp. Sig. 2 tailed of 0.672. With this explanation, it can be concluded that Ha is accepted and HO is rejected. So, it can be concluded that there is no significant difference in the Abnormal Return variable.

Furthermore, in testing the total Trading Volume Activity variable, there was no significant difference in the February 14, 2024 Presidential Election event. This is evidenced by the test results using the Wilcoxon Signed Rank Test with a Z value of -0.429 and Asymp. Sig. 2 tailed of 0.668. With this explanation, it can be concluded that Ha is accepted and HO is rejected. So, it can be concluded that there is no significant difference in the variable.

Table 3 Wilcoxon Signed Rank Test for Daily Abnormal Return

Variable	Sig (2-tailed)	Information
Abnormal Return Day-1	0.189	Not Significant
Abnormal Return Day-2	0.075	Not Significant
Abnormal Return Day-3	0.848	Not Significant
Abnormal Return Day-4	0.786	Not Significant
Abnormal Return Day-5	0.660	Not Significant
Abnormal Return Day-6	0.002	Significant
Abnormal Return Day-7	0.557	Not Significant

Source: processed secondary data, 2025

In table 3, there is information on the results of testing the daily Abnormal Return variable using the Wilcoxon Signed Ranked Test. On day 1 Abnormal return does not occur until day 5 there is no significant difference in Abnormal Return. This is due to investors who have suspected the victory of one of the elected presidential candidates before the event took place through electability surveys conducted by various survey institutions. This was reinforced by the declaration of victory of presidential candidate number 2, Prabowo subianto, who received a quick count result of 58% on t+1. Then on day 6 there was a significant difference in the Abnormal Return variable. On t-6 investors were convinced that one of the presidential candidates would be elected because he had a high electability in the pre-survey conducted by various survey institutions which made the JCI price tend to be stable and on t+6 the market reaction to political stability that had begun to be maintained after the quick count results were announced and investors who previously tended to wait and see began to adjust the direction of their investment based on expectations of future economic policies. The occurrence of abnormal returns on day 6 is due to foreign investors who have re-entered the Indonesian capital market. According to Rajendra (2024) On February 22, 2024 (t+6), foreign investors opened purchases of Rp 5.54 trillion, almost all of which bought shares listed on the LQ45 index such as issuers BBRI (Rp 501.5 billion), TLKM (Rp 468.4 billion), and BBCA (Rp 156.1 billion). On the 7th day there was no significant difference in Abnormal Return because political stability in Indonesia had been maintained and the market had absorbed information quickly.

Table 4 Wilcoxon Signed Rank Test for Daily Trading Volume Activity

Variable	Sig (2-tailed)	Information
Trading Volume Activity Day-1	0.000	Significant
Trading Volume Activity Day-2	0.200	Not Significant
Trading Volume Activity Day-3	0.959	Not Significant
Trading Volume Activity Day-4	0.870	Not Significant
Trading Volume Activity Day-5	0.580	Not Significant
Trading Volume Activity Day-6	0.561	Not Significant
Trading Volume Activity Day-7	0.808	Not Significant

Source: processed secondary data, 2025

Table 4 presents the test results of the daily Trading Volume Activity variable using the Wilcoxon Signed Ranked Test. On the first day, there was a significant difference in Trading Volume Activity due to panic selling and buying by investors before and after the presidential election event, which led to a substantial increase in market transactions. This phenomenon can be explained by behavioral finance theory, where investors tend to overreact to new information before the market conditions eventually stabilize. Furthermore, from the second to the seventh day, no significant differences were observed, as the political situation in Indonesia following the election had begun to subside, and investors were no longer concerned about the event.

5. Discussion

The presidential election is a major political event that can significantly impact the stock market. This event often creates uncertainty for investors due to potential changes in economic and political policies that may affect financial sector stability. However, based on research findings, no significant differences were found in Abnormal Return and Trading Volume Activity for companies listed in the LQ45 index before and after the election. This indicates that the market had anticipated the election results well, preventing significant changes in stock market activity.

The stability of stock prices in the LQ45 index suggests that investors did not overreact to the election results. While elections typically generate market volatility due to uncertainty over future economic policies, this case indicates that investor expectations aligned with their prior predictions. As a result, stock price movements remained stable without sharp fluctuations.

In addition to price stability, the absence of significant differences in Trading Volume Activity demonstrates that investors did not engage in widespread panic selling after the election. This suggests that market liquidity remained intact, with no excessive speculation surrounding the event. The consistency in trading volume also reflects investor confidence in the fundamentals of LQ45-listed companies. This is particularly interesting, as in previous elections, the stock market often experienced high volatility. However, in the 2024 presidential election, research findings indicate that the market responded more rationally and was not influenced by short-term political sentiment.

6. Conclusion

Based on the research findings presented, the following conclusions can be drawn:

- The Presidential Election on February 14, 2024, did not provide meaningful information for stock investors in companies listed on the LQ45 Index. This is evidenced by the results of the Shapiro-Wilks and Wilcoxon Signed-Rank tests, which indicate no significant differences in Abnormal Return and Trading Volume Activity.
- The Presidential Election on February 14, 2024, did not have a significant impact on the research sample, consisting of companies listed in the LQ45 Index. This is due to indications that investor expectations regarding the election results were aligned with their prior predictions, leading to stable stock price movements without sharp fluctuations during the event period.
- There were no significant differences in Abnormal Return and Trading Volume Activity before and after the Presidential Election on February 14, 2024. This is supported by the Wilcoxon Signed-Rank test results on the average data of Abnormal Return and Trading Volume Activity, further reinforced by the daily Wilcoxon Signed-Rank test results, which indicate that the election did not create significant differences before and after the event. Abnormal Return showed a significant difference only on the sixth day, while Trading Volume Activity exhibited a significant difference only on the first day.

Recommendations

The following recommendations can be made based on this research:

- This study examines the presidential election event on February 14, 2024, as a whole. Future research is encouraged to analyze such events in a more detailed day-by-day approach to provide a more comprehensive explanation and yield more precise results.
- This study employs the market-adjusted model with a t-7 to t+7 event window. Future research should consider using alternative methods such as the mean-adjusted model and market model for comparison, ensuring more comprehensive findings.
- Any major event expected to impact the stock market should be a key consideration for investors when making decisions about selecting stocks that may be affected by such occurrences.
- This study focuses on stocks listed in the LQ45 Index. Future research could use more concentrated samples, such as banking, energy, or basic materials sectors, to provide more specific insights.

Compliance with ethical standards

Disclosure of conflict of interest

No conflict of interest to be disclosed.

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