CHAPTER I

INTRODUCTION

1.1 Research Background

Nowadays, capital markets become a serious concern for some countries. Capital market can reflect the economic growth of countries. The size of a nation's capital markets is directly proportional to the size of its economy. Capital markets are vital to the functioning of an economy, since capital is a critical component for generating economic output.

The capital market is an intermediary where financial instruments (such as bonds and stocks) are traded (Van Horne and Wachowicz, 2005). Capital market performs two functions for countries, which are economic and financial functions. Capital market is as economic functions because capital market has a function of allocation fund from who have excess fund (investors) to whose need fund (issuer). While performing as financial function, capital market provided possibility and chance to get returns for investors.

Return is the objective by investing money in the capital market. Return can be earned from dividend and capital gain. Dividend is given by listed companies. In other hand, capital gain is the different between buying price and selling price (Hartono, 2010). The return based on capital gain can be positive and negative. Therefore, investors need strategy to make investment decision. There are many

considerations to make investment decision, such as selling, buying, and holding in order to obtain optimum return (Hartono, 2010).

Information is needed to make investment decision. The efficient market hypothesis means the prices of securities fully reflect available information securities (Bodie et al, 2006). The investors will an incentive to spend time and resources to analyze and uncover new information only if such activity is likely to generate higher investment returns (Grossman and Stiglitz, 1980). Trading volume is one of information which is needed to make a decision. Karpoff (1987) cites an old Wall Street adage that "It takes volume to make prices move", but states that one can question the asserted causality between trading volume and price change. Trading volume can make stock price change. In the same time, the changing of stock market is an eagerness to buy or sell stock. The changing of stock price makes trading volume change too.

According to Karpoff (1987), there are four important reasons of understanding the relationship between stock return and volume. First, it help to predict the relations between trading volume and return that depends on the level information and the extent to which market prices-volume convey this information. Second, the relationship between trading volume and stock return is important for event studies which to draw inferences and will increase the power of these tests by incorporating trading volume and stock return data. Third, this relationship is critical to the debate over the empirical distribution of speculative price. The last reason, the relationship between stock return and trading volume has significant implications research into future market.

Thus, this research will examine the relationship among stock return, trading volume, and return volatility. This research picks evidence in South-East Asia stock market. Kirativanich (2000) concluded that South-East Asian Financial markets were attractive to investors looking for high returns on their investments. Both the financial and economic systems of South-East Asian had grown rapidly. Many investors thus began more favorably on and began investing in the South-East Asian financial market.

Therefore, investors need information about the place that have good prospect in the future. South-East Asian stock markets are one of other interesting stock markets. Investors also need information that can predict future price in order to get high return. Trading volume is a trigger that makes a stock price change. So, this research will investigate "Causal and Dynamic Relationship among Stock Returns, Trading Volume, and Return Volatility in South-East Asia Market Period of 2011-2014".

1.2 Problem Statement

This research will investigate: is there any causal and dynamic relationship among stock return, trading volume, and volatility in South-East Asia from May 2011 to December 2014?

1.3 Scope of the Research

This research will be complex if there is no limitation of the research. This research decided research scope as limitation. The scope of this research is the

research only will investigate the relationship between stock return, return volatility, and trading volume in South-East Asia market. This is an explanation of each part on the research.

a. The period that is used in this research from May 2011 to December 2014, because the data is available for five-countries from May 2011 to December 2014.

b. Variables which are examined included: stock market return, return volatility, and trading volume.

c. According Northern Illinois University site (www.niu.edu), South-East Asia composed eleven countries: Brunei, Myanmar, Cambodia, East Timor, Indonesia, Laos, Malaysia, The Philippines, Singapore, Thailand, and Vietnam. From all members of South-East Asia, there are countries which are having their own stock market and same historical data in period. The five-countries are Indonesia, Thailand, Philippines, Vietnam, and Malaysia. Thus, this research uses the five-countries in South-East Asia. The names of index that used in this research:

1) Indonesia stock exchange will use Jakarta Composite Index (JCI).

2) Malaysia stock exchange will use Kuala Lumpur Market Index (KLCI).

3) Thailand stock exchange will use Stock Exchange of Thailand Index (FTSE SET all-share index)

4) Vietnam stock exchange will use Hanoi Stock Exchange Index (HNXI)

5) Philippines stock exchange will use Philippines Stock Exchange Index (PSEI)

1.4 Benefit of the Research

This research can give advantages and provide contribution to:

a. The Author

This research can make better understanding about the causal and dynamic relationship among stock returns, return volatility, and trading volume in South-East Asia market. The author can apply that was received during study about stock returns, return volatility, trading volume.

b. The Investor

The result of this result can add valuable information for investor as knowledge. The information can help investor to make decision about international investment in order to get high returns.

c. The Readers

This research can help reader to acknowledge about stock returns, return volatility, and trading volume.

d. Other Researcher

This research can be used as reference in order to support another researcher, especially for another researcher who is writing the topics that related to the relationship among stock return, return volatility, and trading volume.

1.5 The Objective of the Research

The main purpose of this research is to examine whether there is causal and dynamic relationship among stock returns, return volatility, and trading volume in South-East Asia Market from May 2011 to December 2014.

1.6 The Originality of Writing

This research was carried out based on the previous research that has been done. This research is replication research based on the previous research entitled "Causal and Dynamic Relationships among Stock Returns, Returns Volatility, and Trading Volume; Evidence from emerging markets in in South-East Asia. The previous research was written by Anirut Pisedtasalasai and Abeyratna Gunasekarage (2009). To broaden the sources and to deepen knowledge of the empirical result, this research is related some research that has similarity and support for investigating the causal and dynamic relationships among stock returns, returns volatility, trading volume.

1.7 Writing Structure

Chapter I: Introduction

This chapter is contained of introduction for the research. This chapter consists of research background, problem statement, scope of the research, benefit of the research, objective of the research, originality of writing, and writing structure (outline).

Chapter II: Theoretical background

This chapter is contained of theoretical background. It will be breakdown into three parts, which are literature review, previous research, and hypothesis development.

Chapter III: Research Method

This chapter explained about type of methodology, sample, research variables, and data analysis method which is used in the research.

Chapter IV: Data Analysis and Discussion

In this chapter will provide analysis and discussion of research that was done. Data will be analyzed using *Eviews 7.0* that is applicable to explain of problem statement.

Chapter V: Conclusion

This chapter is closing of research. This chapter consists of conclusion that is taken from data analysis and discussion, limitation of study, and suggestion for further research.