CHAPTER I

INTRODUCTION

1.1 Background of the Research Study

Stock price fluctuations of a go public company become a common phenomenon that is often seen on the stock exchange, stock market information service centers, capital market research institutions and some places that have an online connection with the stock exchange. Almost in every minute or in every trading session the stock prices of public companies significantly fluctuate. The movement of stock price fluctuations can be measured by its volatility (Widjaja and Basuki, 2008).

Stock price volatility is not only determined by the company's internal factors, but also by its external factors. The company's external and internal factors are the fundamentals, which is often used as a basis by market participants to take their investment decisions. So that the fundamental factors include macro fundamental factors (external) and micro fundamental factors (internal). Macro fundamental factors in terms of capital market analysis referred to the country fundamental factors, these factors are uncontrollable, so the company cannot control them. Macro fundamental factors include factors: (1) economic, (2) social, cultural, demographic and environment, (3) political power, government, and law, (4) technology, and (5) competition (David, 2003 in Sudiyatno and Nuswandhari, 2009).

The affecting economic factors such as global financial crisis due to the deteriorating condition of the American economy. The financial crisis that occurred in the United States began with the subprime crisis in the United States. In 1925, United States had set the laws of Mortgage (Housing). The regulation relate to the property sector, including mortgages that make it easier for the creditors. That loan facilities are also happen when the property prices in the U.S. increase. This was followed by the increased speculation in the sector. Problems arise when many property financial institutions in United States lending people who actually are not financially feasible to obtain credit which is people who do not have the economic ability to meet the credit that they do (www.bappenas.go.id).

That situation led to the stuck credit in the property sector (subprime mortgage). Non-performing loans in the property sector resulted in a domino effect that led to the collapse of several financial institutions in the United States. This was because of the property financial institutions usually did short-term borrowing funds from another party, usually a financial institution. Guarantee that the property financial institutions provides is debt (subprime mortgage securities) which is sold to investment institutions and investors in various countries. In fact, debt is not guaranteed that the debtor has the ability to pay his debt on time (www.bappenas.go.id).

The existence of delinquent property loans, finance companies cannot meet its obligations to financial institutions, both investment banks and its management assets. It affects the liquidity of capital markets and banking system.

These conditions led to the draining of liquidity from financial institutions because they do not have funds to pay existing obligations. This inability to pay obligations make financial institutions that provide loans in danger of bankruptcy. Conditions faced by major financial institutions in the United States affect the liquidity of other financial institutions, both located in the United States and outside the United States, especially institutions that invest their money through the instruments of financial institutions in the United States. This is where the global financial crisis began (www.bappenas.go.id).

This financial crisis impact on global capital markets activity. The development of stock market index in some world markets that were previously shown at outperform performance, corrected down to a level that is not expected. If compared to the beginning of 2008, the Shanghai stock index has fallen by 64 percent, the Kuala Lumpur Composite Index by 34 percent. Likewise with the Composite Stock Price Index (CSPI) Indonesia Stock Exchange in September,16 2008 touched its lowest level 1719.254, corrected 39.3 percent calculated from the highest level CSPI January 9, 2008 at the level of 2830.260. Direct losses may be experienced only by a small fraction of investors who have the exposure of assets directly related to problematic U.S. financial institutions (Hadi, 2010).

The significant decrease of IHSG that happened on 6 until 8 October 2008, represent the impact from macro enviromental influence. On October 7, 2008 the price of IHSG go down equal to 29,02 point (1,76%) from 1.648,74 becoming 1.619,72. Finnaly at October 8, 2008 IHSG is going down equal to 168,05 point

(10,38%) from 1.619,72 becoming 1.451,669 consider as irrational and represent the lowest index since September 2006 (Iskan, 2008).

The degradation of IHSG pushing the government to bring such an action to prevent too much price degradation. In this case, Nasution (2008) expressing that action conducted by government to prevent the IHSG degradation such as:

1. Suspend the activity of BEI,
2. Applying auto asymmetric rejection, that is demarcation to highest or lowest offer price to the share included to JATS in regular market and cash market,
3. Government ask the BUMN that already sell its share in BEI to conduct the buyback action or buy again its share.

The action conducted by the government through BEI's authority relate to the BEI suspend relied on regulation of effect commerce by the Decision of Board Of Directors of PT. Bursa Efek Jakarta Number: Kep-307/Bej/12-2006 About Change / Addition Regulation Number II-A About Effect Commerce at Section V express In order to taking care of executing regular effect commerce, efficient and fair. BEI can pause the trade market, in the case of:

1. JATS and or JONES do not work properly,
2. By written request from KPEI referring to the manulfunction of kliring system and guarantee of KPEI,
3. The happening of very keen degradation or price increase totally in the market,
4. The happening of Force Majeure.

Until the end of 2008, Dow Jones in United States, FTSE 100 in English, Nikkei in Japan, STI in Singapore, each of them go down 33,8%, 31,3%, 42,1%, and 49,0 compared to 2007. This degradation continued to take place until early March 2009. Dow Jones in New York decline to under 7000, and the FTSE 100 in London decline to under 3700. Until the end of March 2009, Dow Jones and FTSE 100 index each reaching 7609 and 3926 or weaker 13,3% and 11,4% if compared by the end of 2008. Nikkei in Japan and Straits Times in Singapore each of them down by 8,4% and 3,5% in the same period (www.bappenas.com, 2011).

The existence of global crisis influence to emerging capital market and developed capital market, therefore this research concern about checking the difference of intensity before and after U.S. sub-prime crisis at emerging capital market index, checking the difference of intensity before and after U.S. sub-prime crisis at developed capital market index and checking the difference of intensity before and after U.S. sub-prime crisis among emerging capital market index and developed capital market index.

1.2 Problem Formulation of the Research Study

Based on the background research, formulation of the problem in this study are:

1. Is there any intensity differences of emerging capital market index before and after U.S. sub-prime crisis?

2. Is there any intensity differences of developed capital market index before and after U.S. sub-prime crisis?
3. Is there any intensity differences of emerging capital market index and developed capital market before and after U.S. sub-prime crisis?

1.3 Scope of Study

Restrictions meant that the issue discussed in the study did not deviate from the problem under study. In this study the authors limit the problems to be discussed are as follows:

1. LQ 45, Bombay Stock Exchange SENSEX, and SET50 index used as emerging capital market index. Reasons for choosing LQ 45, Bombay Stock Exchange's SENSEX and SET50 index as emerging capital markets index because these countries belong to emerging capital markets and the development of these country capital markets is relatively the same.
2. DJIA, FTSE 100 and Nikkei 225 used as delevoped capital market index. Reasons for choosing DJIA because DJIA represent U.S. capital markets, the most developed capital markets. FSTE 100 chosen because FSTE represent the European capital markets and it is one of the developed index. While Nikkei 225 represents Asian capital markets.
3. The study was conducted in the year 2005 to 2011.

1.4 Objective of the Research Study

The purpose of this study was to examine the intensity differences that happen before and after U.S. sub-prime crisis in emerging capital market index, to examine the intensity differences that happen before and after U.S. sub-prime crisis in developed capital market index and to examine the intensity differences that happen before and after U.S. sub-prime crisis in emerging capital market index and developed capital market index.

1.5 Benefits of the Research Study

This research is expected to provide benefits toward:

1. For Researcher

   This research can be a means and media to exercise the application of science and theory that have been obtained while studying in college to the real business world, especially regarding financial management.

2. For Readers

   The results of this study can be used as reading material and means of enhancing knowledge for those who need, especially in the areas of financial management.

3. For Investors and Potential Investors

   The results of this study can be used as a material consideration in making investment decisions.

1.6 Originally of the Writing

The researcher compiled this research study by herself. This research did not duplicate it from previous research studies compiled by other researchers. All writings, research data, data analysis and conclusion in this research study was done and explored by researcher, except for the written sources which were used as the reference in this study.

1.7 Systematic of the Writing

The writing in this research study divided into five chapters for organizational purposes, which are:

CHAPTER I: INTRODUCTION

This chapter describes the background of the problem, formulation of the problem, limit the problem, research objectives, and benefits of research, writing and systematic.

CHAPTER II: THEORITICAL REVIEWS

This chapter contains a description of which is used as the theoretical basis of the theory behind this study, previous research, and development of hypotheses.

CHAPTER III: RESEARCH METHODOLOGY

This chapter contains about research methods consisting of populations and samples, data and data collection methods, variables used, and data analysis techniques.

CHAPTER IV: ANALYSIS AND DISCUSSION

This chapter discusses the data analysis and the results obtained in this study.

CHAPTER V: CONCLUSION

This chapter consists of conclusions, research limitations and suggestions.