

ABSTRACT

Terrorism is one event that not only affect the physical state of a country such as infrastructure damage, but also may affect the stock price index of the country. Stock price index decreased, can reduce investors confidence and draw out their investment funds. However, not all of terrorism events had a negative impact. Therefore, it is necessary to study on the impact of terrorism that occurred in Indonesia to its stock market.

This study aims to describe the abnormal return and trading volume activity of Jakarta Composite Index (JCI) in around the terrorism events occurred. This study compared the abnormal return before, during, and after the terrorism events to see a significant difference. This study also compared trading volume activity before, during, and after terrorism events.

To achieving these aims, this study using event study method with 243 days as the observation period, that is 236 days to estimate the expected return, and 7 days as the event period that divided into 3 days before, one day events, and three days after the event. Data that used in this research is secondary data consist of market capitalization, the stock's closing price and trading volume of JCI. Then the data is processed to acquire the value of abnormal return and trading volume activity were further tested with SPSS 20.

The results of analysis showed that terrorism events have an impact when the incident occurred. Significant differences were found in abnormal return before and during the incident. Likewise with trading volume activity. However, no significant differences during and after terrorism, nor before and after terrorism events occurred.

According to the research, it can be concluded that the terrorism events in Indonesia is an event which quickly spread, but quickly forgotten. So investors responded temporary panic during terrorism events. Therefore, investors should pay more attention to other economic and non-economic events that influencing the stock for a long time to make decision on their investment.

Keywords: Event Study, Abnormal Return, Trading Volume Activity, Terrorism