ABSTRACT

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The activities of capital market can not be separated from some environmental influences; both economic and non-economic environment. Thus, these influences affect the stock be more sensitive to a variety of events around it. The exercise of free trade ASEAN-China which was inaugurated in January 1st 2010, boasts the local government to issue the policy of elimination of tariffs at 0% for some commodities, those are ceramics, footwear, textile and garment, iron and steel, base electronics, food and beverages, and chemicals. This study aims to figure out the capital market’s reaction before and after the ASEAN-China free trade agreement (ACFTA) in 2010 which is seen from the indicators of stock price movement, return, abnormal return and trading volume activity.

This study use the event study approach. The samples used are 18 companies from various sub-sectors. The study period is 20 days; 10 days before the event and 10 after the event. The testing is done by descriptive analysis and hypothesis. Hypothesis analysis use paired sample T-test, while the descriptive analysis use one sample T-test.

From the analysis of paired samples T-test with a sig 5% level, it is known that there is no significant difference between the stock price, return, abnormal return and trading volume activity before and after the ASEAN-China free trade (ACFTA) in 2010. The result of one samples T-test analysis with a level of 5% show different of significant betwen stock market before and after ASEAN-China free trade (ACFTA) in 2010. However, the return, abnormal return and trading volume activity variables before and after the ASEAN-China free trade agreement (ACFTA) in 2010 have no significance. It happens because the market has already known the information and the anticipated it through a massive deal that was welcomed by the market with a decrease in share price, return and abnormal return. Some investors take advantage of this event by purchasing a low stock price and reselling it when stock prices are high. It is shown by the increase in trading volume activity. In sum, based on the information market efficiency, the Indonesian capital market is categorized into semi-strong form efficiency.