

ABSTRACT

The purpose of this study is to analyze the stock price reaction to a domestic political event. In this case, the event of visitation of the Presiden of the United States Barrack Obama to Indonesia on November 9th-10th 2010. Using 38 stocks in Indonesia Stock Exchange, this research explored the issue by applying event study methodology for analyzing the market reaction, that reflected by abnormal return and trading volume activity 5 days before, 2 event date, and 5 days after the date of the event.

The data that used in this research were the daily closing stock price, daily market index (LQ45), share trade, and share issued. Samples of this research were stocks listed in the LQ45 at Indonesia Stock Exchange. Expected return in this research using Single Index Market Model.

The results of the analysis show the following: (1) The event of visitation Presiden of The United States Barrack Obama possess information contents that cause the stock exchange to react, there were significantly abnormal return around the event. (2) The event have not caused extraordinary reaction in the stock exchange, as there were not any significantly differences in the average abnormal return before and following the event. (3) The were not any significantly differences in the average trading volume activity before and following the event.

Keywords: event study, abnormal return, trading volume activity, Single Index Market Model, visitation of the Presiden of The United States Barrack Obama.