



## TABLE OF CONTENTS

page

Title Page .....	i
Declaration .....	ii
Table of Contents .....	iii
List of Tables .....	v
List of Figures .....	vi
List of Appendices .....	vii
Abstract .....	viii
Abstraksi .....	ix
CHAPTER I INTRODUCTION .....	1
1.1. Background .....	1
1.2. Problem Formulation .....	1
1.3. Research Objectives .....	4
1.4. Research Benefits .....	5
1.5. The Organization of the Thesis .....	5
CHAPTER II LITERATURE REVIEW .....	7
2.1. Theoretical Background .....	7
2.1.1. Market Overreaction .....	7
2.1.2. Bid-Ask Bounce .....	8
2.1.3. Efficient Market Hypothesis .....	10
2.2. Hypotheses Development .....	13
2.2.1. Market Overreaction .....	13
2.2.2. Test of Market Efficiency .....	16
2.2.3. Effect of Bid-Ask Spread on Price Reversal .....	18
CHAPTER III RESEARCH METHODOLOGY .....	22
3.1. Sample Selection .....	22
3.2. Variables and Measurements .....	23
3.3. Test of Hypotheses and Data Analysis .....	26
3.3.1. Overreaction Hypothesis .....	26
3.3.2. Excess Profit During Reversal (Test of Market Efficiency) .....	27
3.3.3. Effect of Bid-Ask Spread on Reversal .....	27
CHAPTER IV RESEARCH FINDINGS AND DISCUSSION .....	29
4.1. Sample Characteristics .....	29
4.2. Does Overreaction Exist in Jakarta Stock Exchange? .....	30
4.2.1. Do Winner Stocks Overreact? .....	30
4.2.2. Do Loser Stocks Overreact? .....	32
4.3. Do Investors Earn Excess Profit During the Price Reversals? .....	34
4.4. Do Bid-Ask Spreads Cause the Reversal? .....	37
4.5. Discussion .....	37



	page
<b>CHAPTER V CONCLUSIONS AND RECOMMENDATIONS</b> .....	40
5.1. <b>Conclusions</b> .....	40
5.2. <b>Discussion</b> .....	41
5.3. <b>Research Limitations</b> .....	44
5.4. <b>Recommendations</b> .....	44
<b>BIBLIOGRAPHY</b> .....	45
<b>APPENDICES</b> .....	46



## LIST OF TABLES

Table 3.1: Sample Selection Process .....	23
Table 4.1: Sample Characteristics of Winners and Losers on the Event Day (t=0).	29
Table 4.2: Daily Mean Abnormal Returns for a Sample of JSX Stocks that Exhibited Large One-Day Price Increase from January 2002 through December 2002 .....	31
Table 4.3: Daily Mean Abnormal Returns for a Sample of JSX Stocks that Exhibited Large One-Day Price Decrease from January 2002 through December 2002 .....	33
Table 4.4: Net Profit or Loss that Computed by Subtracting Cumulative Abnormal Return by Average Relative Bid-Ask Spread .....	35
Table 4.5: Reversal Returns for Investors that Buy Stocks Exhibited A Large Price Decrease (Loser Portfolio) on Opening Ask Price Day 1 (t=1) and Sell on Closing Bid Price Day 1, 2, 3, 4, and 5.....	35
Table 4.6: Reversal Returns for Investors that Buy Stocks Exhibited A Large Price Decrease (Loser Portfolio) on Closing Ask Price Day 1 (t=1) and Sell on Closing Bid Price Day 2, 3, 4, and 5.....	36
Table 4.7: Results of the Winner and Loser Abnormal Returns Regression for day t=1 on the Stock's Bid-Ask Spreads.....	37



## LIST OF FIGURES

	page
Figure 2.1: Cumulative Levels of Market Efficiency and the Information Associated with Each. ....	13
Figure 4.1: Cumulative Abnormal Returns for Winner Stocks that Exhibited a Large Price Increase at $t=0$ .....	30
Figure 4.2: Cumulative Abnormal Returns for Loser Stocks that Exhibited a Large Price Decrease at $t=0$ .....	32



## LIST OF APPENDICES

	page
APPENDICES .....	47
APPENDIX 1 : Selected Samples .....	47
APPENDIX 2 : T-Test .....	49
APPENDIX 2.1.: One-Sample Statistics for Winner Abnormal Returns .....	49
APPENDIX 2.2.: One-Sample Test for Winner Abnormal Returns .....	50
APPENDIX 2.3.: One-Sample Statistics for Loser Abnormal Returns .....	51
APPENDIX 2.4.: One-Sample Test for Loser Abnormal Returns .....	52
APPENDIX 2.5.: One-Sample Statistics and Test for Strategy1 Reversal Returns	53
APPENDIX 2.6.: One-Sample Statistics and Test for Strategy2 Reversal Returns	54
APPENDIX 3 : REGRESSIONS .....	55
APPENDIX 3.1.: Regression Winner Abnormal Returns on Spread .....	55
APPENDIX 3.2.: Regression Loser Abnormal Returns on Spread .....	56