

ABSTRACT

Since the Independence Day in 1945, the Indonesian government has made several adjustments to fuel price by increasing it. However, for the first time in Indonesian history, on November 6th, and December 15th, 2008, the Indonesian government decreased the subsidized-fuel price. This phenomenon has never happened before in Indonesia.

The main objective of conducting this research is to give an illustration about the effect of the decrease of subsidized-fuel price announcement on Indonesian Stock Market. To reflect the actual conditions, the impact observed is the impact of ten industrial sector indexes as a whole from two event studies, in November 6th, and December 15th, 2008. The next objective is to observe the reaction of each sector related with the event and find which sector has the biggest impact to the announcement.

Both announcements, gives positive average cumulative abnormal return to the whole portfolio during the event windows. The market presents a positive sentiment to the information leakage about government policy to decrease fuel price on November 6th, and December 15th. The response from each industrial sector is significantly different, during the event window period on November 6th, and December 15th related to the announcement to decrease subsidized-fuel price. Agriculture is the most affected sector among all other sector. This is shown by the biggest average abnormal return both on November 6th and December 15th, 2008 announcement.

Keywords: subsidized-fuel price, event study, capital market, industrial sector index, abnormal return