

**MARKET RESPONSE WITH RESPECT TO
THE SOUNDNESS OF BANKS AND MANAGERIAL DISCRETION
(AN EMPIRICAL INVESTIGATION OF INDONESIAN BANKING SECTOR FOR
YEAR 2005-2008)**

**SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS
OF BACHELOR DEGREE OF ECONOMICS
IN THE FIELD OF ACCOUNTING**



**SUBMITTED BY
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ABSTRACT

UNDERGRADUTE THESIS BACHELOR DEGREE OF ECONOMICS

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TITLE:

Market Response with Respect to The Soundness of Banks and Managerial Discretion (An Empirical Investigation of Indonesian Banking Sector for Year 2005-2008)

CONTENT:

Bank has an important role in economy. It is based on the main function of bank as an intermediary institution between the surplus of fund side and the lack of fund side. Bank is one of the financial institutions trusted by the people to manage their funds. The soundness of a bank, therefore, become an important factor to measure bank's performance that can be useful for the stakeholders including owners, management of the bank, the public using the services of the bank, and Bank Indonesia as the bank supervisory authority.

Previous research found that there were relationships among the soundness of banks, managerial discretion, and market response but it seems that complementary research according to this topic is still needed because there is an area which is not covered yet. The relationships among the soundness of banks, managerial discretion, and market response will be investigated further in term of the possibility of the existence of the soundness of banks impact towards market response (either directly or indirectly through the existence of managerial discretion). Further, this research use path analysis as the pattern of data analysis. Under level of significance $\alpha = 5\%$, from the eight financial ratios used as independent variables, only Classified Earnings Assets to Earnings Assets which has a direct impact

towards market response (Earnings Response Coefficients). This research found that beside Classified Earnings Assets to Earnings Assets, managerial discretion (Discretionary Accruals) also has an impact towards market response. An indirect impact of banks soundness towards market response only occurred in a relationship between Capital Adequacy Ratio (CAR), Established Allowance to Compulsory Allowance (EALL to CALL), and Return on Equity (ROE) with Earnings Response Coefficients partially. The validity of research model is indicated by the coefficient of total determination which has value 77.3%.

Keywords: CAELS Ratios, Discretionary Accruals, Earnings Response Coefficients, Path Analysis

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