ABSTRACT

The aim of this study is to investigate on how the market reacts, type of industry, and fundamental factor to three domestic terrorism attack that occurred in Indonesia which is Australian embassy bombing, Bali II bombing, and Mega Kuningan Bombing. The sample of this study is all firms listed in Indonesian Stock Exchange which indexed in LQ45. This study uses event study method to examine changes in abnormal returns after the terrorist attack. Then, the cumulative abnormal return is regressed to the type of industry and fundamental factor. The result shows that the abnormal return of the firms is significant negative after the two terrorist attacks. This indicate that firms in Indonesia experienced negative market reaction after the terrorist attack. Then the regression results showed there is positive and significance correlation between financial industry and cumulative abnormal return at Australian embassy bombing event, but no significance correlation on the Bali II and Mega Kuningan bombings. This indicate financial industries more stable in facing the impact of terrorist effect. Furthermore, there is no significance correlation between fundamental factor and cumulative abnormal return.

Keywords: event study, terrorism, efficient market, Indonesian capital market