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Research Paper

The Effect of Accounting Information on Abnormal Return of Stock: Assessment by Capital Asset Pricing Model

[1]Diaraya,[2]Gagaring Pagalung,[3]Abdul Hamid Habbe,[4]R.A. Damayanti
[1]Doctoral Candidate Of Program Economics – Accounting Concentration Graduate School Of Hasanuddin University
[2,3,4]Faculty Of Economy And Business Hasanuddin University, Makassar - Indonesia

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ABSTRACT : *The study aims to investigate the impacts of accounting information on the stock prices of syariah and conventional stocks using Capital Asset Pricing Model, and examine the capital market reaction as a result of dividend announcement. The accounting information variable used is Avarage Abnormal Return (AAR) as a dependent variable, while Earning per Share (EPS), Debt to Equity Ratio (DER), Return on Assets (ROA), and Return on Equity (ROE) are independent variables.*
The population of the study are all stocks of companies registered in the Indoneisian Stock Exchange in 2014 and 2015 and had undertaken dividend announcement. The study sample is the return measured by 111 days of abnormal return consisting of 11 days of observation period of Window and 100 days of observation period of estimation. The number of samples fulfilling the sampling criteria are 106 different companies which announcement cash dividend comprising 70 syariah companies and 36 conventional companies. The objects have represented all industrial sector listed in the Indonesian Stock Exchange.
The study indicates 8 types of stock portfolios, in all stock portfolios it is observable that the value of AAR variable increases after the dividend announcement.
Keywords : *Accounting Information, Abnormal Return, Dividend, CAPM*

I. INTRODUCTION

The company's stock is one of the most prevalent financial market instruments. Issuing shares is one of alternative when deciding to fund the company. On the other hand, stock is an investment instrument that many investors choose because stocks are able to provide an attractive rate of return (http:// www.idx.co.id). Shares consist of two types, namely sharia and conventional shares. Sharia stock index is issued by sharia capital market institution, where the index is based on all shares listed in sharia capital market that have previously been selected by National Sharia Board, while conventional stock index is all shares listed in Indonesia Stock Exchange.

In investing shares in a company, investors often get an abnormal return. Abnormal return occurs when the investors do not get the information simultaneously. If investors get the information faster than others then he has opportunity of getting a greater abnormal return than other investors. One of the most important information to get a response from the public is the announcement of dividends. Information from the announcement of increased dividends tends to be regarded as a good news by the market, while the announcement of declining dividend tends to be regarded as bad news. A good news and bad news is certainly going to get different reaction or response from the market. Negative market reaction is reflected in the existence of negative abnormal return, this has been proven by research conducted by Medeiros and Matsumoto (2006), while the positive abnormal return occurs if the return obtained is greater than expected rate of return. Information is affecting trading activities in the capital market, but not all information can be served as a benchmark in trading activities. The announcement of dividend payment is one of the relevant information to capital market condition. Information that is considered to have informative content for investors is the announcement of dividend payment and will be distributed to the shareholders of the company. Information content is also useful for assessing accounting income (Ball and Brown, 1968). Investors believe that dividend announcements can benefit both investors who want to make a profit in the long run as well as investors who

*Corresponding Author: Diaraya[1] and Gagaring[2]

[1]Doctoral Candidate Of Program Economics – Accounting Concentration Graduate School Of Hasanuddin University

just want to get a short-term profit. Information is considered informative if it is able to increase the confidence of decision makers, with the existence of new information will form a new confidence among investors. This new trust will change the supply and demand of shares in a company listed on the Stock Exchange.

According to signaling theory, there is an assumption between managers and investors. Managers know the prospects of the company in the future, while investors do not (Gelb, 1999). Basically, this signaling theory promulgates that every action contains information, caused by asymmetric information. Asymmetric information is a condition in which one party has more information than the other (Spence, 1973).

II. BACKGROUND

The Interesting phenomenon behind this research is to observe the effect of accounting information to the abnormal return of conventional stock and sharia stock listed in Indonesia Stock Exchange 2014-2015 and make a dividend announcement using Capital Asset Pricing Model. Some of the research of observation using asset pricing model in which beta and fundamental factor as measuring risk have been done, including the research which has been done by: Markowitz (1952) is the first to introduce about stock portfolio. The portfolio is formed by the average and standard deviation of stock returns based on the relationship between the stocks that make up the portfolio. This portfolio came to be known as the Markowitz portfolio model. The Markowitz portfolio model is an efficient portfolio established with the goal to minimize the standard deviation as a risk measurement from a portfolio. Sharpe (1964) developed a model called the Single Index Model. This model can be used to simplify calculations on the Markowitz model by providing the input parameters required in the Markowitz model calculations.

The practice of asset pricing model using beta and fundamental factor as a risk gauge, then developed by: Sharpe (1964), Lintner (1965) and Mossin (1966) who presented Capital Asset Pricing Model. This model explains how the relationship between stock returns with market risk factors. According to the concept of Capital Asset Pricing Model, the only factor influencing stock return is market risk. Zobaer et al. (2013) conducted a study of 80 companies listed on The Dhaka Stock Exchange (DSE). The empirical findings show that the Capital Asset Pricing Model is inadequate to be used in Bangladesh stock market. The returns from the Bangladesh stock market deviate from the normal distribution. While research conducted by Zhang and Wihlborg (2004) to 753 companies in Europe, which examines the relationship of Unconditional and Conditional Capital Asset Pricing Model. This study analyzes the equity value and cost of capital of the six capital markets of developing countries using unconditional and conditional capital asset pricing models.

This research will make an important contribution in the context of accounting research and capital market in Indonesia, especially in analyzing the effect of accounting information to abnormal return of sharia and conventional stocks listed on Indonesia Stock Exchange.

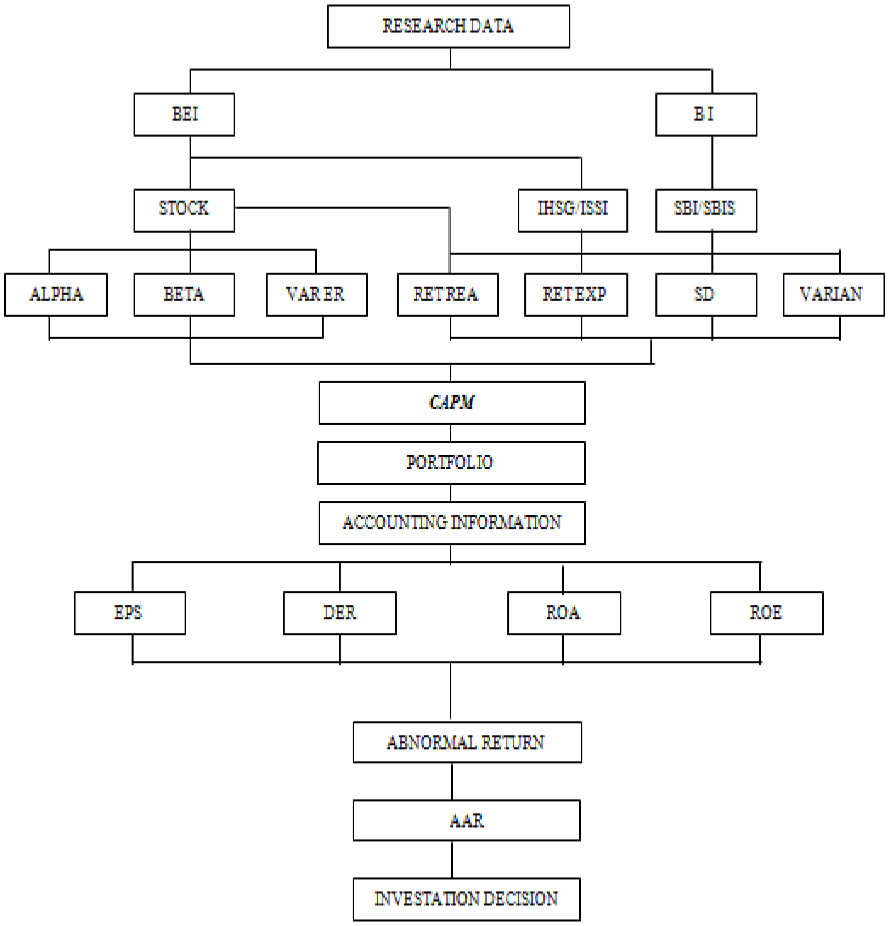
III. PROBLEM STATEMENT

Based on the background of research, we formulate the problem as follows:

1. Does Earning Per Share (EPS) affect the abnormal return of conventional shares of companies listed in the Indonesia Stock Exchange
2. Does Earning Per Share (EPS) have an effect on abnormal return of sharia shares of companies listed in Indonesia Stock Exchange
3. Does Debt to Equity Ratio (DER) affect the abnormal return of conventional stocks of companies listed in the Indonesia Stock Exchange
4. Does Debt to Equity Ratio (DER) affect the the abnormal return of sharia shares of companies listed in the Indonesia Stock Exchange
5. Does Return on assets (ROA) affect the abnormal return of conventional shares of companies listed in the Indonesia Stock Exchange
6. Does Return on assets (ROA) affect the abnormal return of sharia shares of companies listed in the Indonesia Stock Exchange
7. Does Abnormal return on Equity (ROE) affect the abnormal return of conventional shares of companies listed in the Indonesia Stock Exchange
8. Does Return on Equity (ROE) affect the abnormal return of sharia shares of companies listed in the Indonesia Stock Exchange
9. Analyzing accounting information (ROA, EPS, DER and ROE) simultaneously affect the abnormal return of conventional shares of companies listed in Indonesia Stock Exchange
10. Analyzing accounting information (ROA, EPS, DER and ROE) simultaneously affect the abnormal return of sharia shares of companies listed on the Indonesia Stock Exchange

IV. FRAMEWORK

The framework of this research using Capital Asset Pricing Model, made by using flowchart:



Where :

BI	: Bank of Indonesia
BEI	: Indonesia Stock Exchange
IHSG	: Composite stock price index
ISSI	: Indonesia Shari'ah Stock Index
SBI	: Bank Indonesia Certificates
SBIS	: Bank Indonesia Shari'ah Certificates
ALPHA	: Alpha
BETA	: Beta
VAR ER	: Varian Error
RET REA	: Return Realitation
RET EXP	: Return Expectation
SD	: Standart Deviation
VARIAN	: Varian
EPS	: Earning Per Share
DER	: Debt to Equity Ratio
ROA	: Return on Asset
ROE	: Return on Equity

V. HYPOTHESIS

5.1 Earning Per Share (EPS)

Earning Per Share (EPS) is the ratio between net income and the number of outstanding stock. EPS describes the company's profitability reflected on each share. Earnings per share will be intensively followed by share participants, since the earnings per share of a company is a reflection of the company's value. According to Ang (1977), Earning Per Share (EPS) is the ratio between net income after tax on one book year with the amount of shares issued.

The study findings indicate a significant positive relationship between earnings per share forecast error and abnormal returns to new companies in Iran's capital market in the two periods that represent the information content of earning per share. In the context of an international comparison, estimates of these two variables obtained from two years forecasts prepared by financial analysts (source: IBES) are significantly associated with the market values, at least in developed countries. In the latter case, the expected earnings per share (EPS) in 2 years has an information content that complements a forecasting year (Ahmad et al, 2014). The relationship between earnings per share and abnormal returns was also positive. When investing, investors prefer high abnormal returns (Akinyi and Melissa, 2017).

From the description above it can be formulated the following hypothesis:

H1: Earning Per Share (EPS) affect the abnormal return of conventional stock of company listed in Indonesia Stock Exchange.

H2: Earning Per Share (EPS) affect the abnormal return of sharia stock of company listed on Indonesia Stock Exchange.

5.2 Debt to Equity Ratio (DER)

Debt to Equity Ratio (DER) is a solvency ratio that measures the company's performance in returning short-term and long-term liability by looking at the ratio of total liability to total equity. Debt to Equity Ratio (DER) is the ratio of total debt to total share holders equity owned by the company. Total debt is the total liability, while the total share holders equity is the total capital owned by the company itself. This ratio shows the composition between the capital structure of the total loan to total capital owned by the company. According to Ang (1997), the higher the Debt to Equity Ratio (DER) ratio shows the smaller return rate. Risks owned by investors will be higher due to high debt levels which means higher interest expense that will result in declining of stock returns. Signal to changes of Debt to Equity Ratio (DER) will make the market react. Stock price reaction can be measured by using stock return as the value of price change. Debt to Equity Ratio (DER) has positive effect and not significant on stock price of cement industry listed in Indonesia Stock Exchange (IDX) from 2011 until 2015 (Kamar, 2017). Debt to Equity Ratio (DER) has positive and unsignificant impacts towards the investment return (McConnell and Schlarbaum, 1981).

From the description above it can be formulated the following hypothesis:

H3: Debt to Equity Ratio (DER) affect the abnormal return of conventional stock of company listed in Indonesia Stock Exchange

H4: Debt to Equity Ratio (DER) affect the abnormal return of sharia stock of company listed in Indonesia Stock Exchange

5.3 Return on Assets (ROA)

Ang (1997) stated that return on assets (ROA) is the ratio between net income after tax to total asset. This ratio is used to measure the effectiveness of the company in generating return by utilizing assets owned by the company. ROA is one of the most important profitability ratios used to predict the price or return of shares of public companies. ROA is used to measure the company's effectiveness in generating profits by utilizing its assets. ROA is the ratio between net income after tax to total asset. The greater the ROA shows the better the company performance, because the greater the rate of return. This ratio indicates that the greater the ROA the more effective the company in utilizing its assets productively. The increasing of ROA means that company's profitability increases, so the ultimate impact is an increase in profitability which is benefited by shareholders (Husnan, 1998). ROA shows the company's ability to generate net income from assets used by the company.

The increased attractiveness of the company makes the company more interested to investors, because the rate of return is greater. This will also affect the stock price of the company in the capital market will also increase. In other words, ROA will have a positive impact on stock prices. If the stock price of a company increases, then the stock return (in this case capital gain) will increase. Rational investors of course will choose investments in companies with high profitability, so it will encourage the enhancement of stock returns to be received by investors.

From the description above it can be formulated the following hypothesis:

H5: Return on assets (ROA) affect the abnormal return of conventional stocks of companies listed in Indonesia Stock Exchange

H6: Return on assets (ROA) affect the abnormal return of sharia shares of companies listed in Indonesia Stock Exchange

5.4 Return on Equity (ROE)

Return on Equity (ROE) is the ratio between net income after tax to the total capital of its owner's capital, retained earnings and other reserves collected by the company. Return on Equity (ROE) shows the effectiveness of the company in generating net income by using its own capital. The higher ratio of Return on Equity (ROE) indicates that the company is able to use its own capital effectively to generate net income. With the increasing of investor expectations, the company will also be increasingly in demand by investors. With the increasing interest of investors on the stock of the company then the demand for shares in the capital market will also increase. This will have an impact on stock prices that tend to increase as well. With the increasing of stock prices, then capital gains to be obtained by investors will also increase. Escalation in Return on Equity (ROE) is usually followed by an increasing in stock price of the company.

The variables which are consistently significant on adjusted return and abnormal return are profitability ratios (ROE). It shows that from investors' point of view financial ratios are useful in making decision on investment (Martani et al, 2009). Similarly to the variables of EPS, DER, ROA, and ROE having t calculation located outside the area of the t Table, thus it can be concluded that the variables of EPS, DER, ROA and ROE also significantly affect the dependent variable abnormal return. From the calculation in table, concluded that the EPS, DER, ROA and ROE collectively gave positive and significant impact on stock returns in companies listed on the Indonesia Stock Exchange (Diaraya et al, 2017).

From the description above it can be formulated the following hypothesis:

H7: Return on Equity (ROE) affects the abnormal return of conventional stock of companies listed in Indonesia Stock Exchange

H8: Return on Equity (ROE) affects the abnormal return of sharia shares of companies listed in Indonesia Stock Exchange

Based on the description above, the authors suspect that both partially and simultaneously EPS, ROA, DER and ROE (accounting information variables) affect the abnormal return of shares of companies listed in Indonesia Stock Exchange, so formulated the following hypothesis as follows:

H9: Accounting Information (ROA, EPS, DER and ROE) jointly affect the abnormal return of conventional shares of companies listed in Indonesia Stock Exchange

H10: Accounting Information (ROA, EPS, DER and ROE) jointly affect the abnormal returns of sharia shares of companies listed in Indonesia Stock Exchange

VI. RESEARCH METHOD

5.1 Population, Sample, and Sampling Techniques

The population in this research is all companies listed in Indonesia Stock Exchange and based on publication of Indonesia Stock Exchange (IDX), Indonesian Central Securities Depository (KSEI), Bank Indonesia (BI), Yahoo Finance and Financial Services Authority (OJK). Furthermore, the sampling technique in this research was conducted by non-probability sampling method by purposive sampling technique, which is the selection of data based on certain criteria or judgment sampling. This is a sampling technique performed with certain considerations, such as identified sample characters.

5.2 Data Source and Types

This research uses combined data called pooling data, which is a combination of time series data and cross section data. While the type of data used in this study is secondary data, which sourced from the data:

- **i.** Companies listed in Indonesia Stock Exchange period 2014 - 2015 that have complete and reliable financial data.
- **ii.** Companies whose shares are actively traded on the Indonesia Stock Exchange period 2014 - 2015.
- **iii.** Companies that submit consolidated financial statements consecutively during the period 2014-2015
- **iv.** Companies announcing dividends as well as known the date of their announcement consecutively during the period 2014-2015

5.3 Data Collection Method

The data used in this research is secondary data including financial data and ratios (EPS, DER, ROA and ROE), announcing dividend and known date of announcement, daily data in form of stock price of companies listing in Indonesia Stock Exchange as sample, Indonesia Composite Index (IHSG), Indonesia Sharia Shares Index (ISSI), Bank Indonesia Certificates (SBI) and Bank Indonesia Sharia Certificates (SBIS). To complement the data, also taken from mass media such as journals and internet.

5.4 Research Variables

The hypothesis testing on the relationship of the variables of earning per share (EPS), debt to equity ratio (DER), return on assets (ROA) and return on equity (ROE) to abnormal return of stock in this research, created multiple regression equation as follows: $Y_1 = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$

where :

Y_1 : *abnormal return* CAPM

α : constants

$\beta_1, \beta_2, \beta_3, \beta_4$: regression coefficient

X_1 : EPS

X_2 : DER

X_3 : ROA

X_4 : ROE

ε : *residual*

Capital asset pricing model (CAPM) is defined as:

$E(Ri) = R_F + \beta_I [E(R_M) - R_F]$

Notes:

$E(Ri)$ = rate of return required on security-i that contain risk.

R_F = risk-free rate of return

$E(R_M)$ = average return on the capital market

β_I = undiversifiable risk of data-i

VII. OVERVIEW OF RESEARCH OBJECT

The population in this research is all shares of companies listed in Indonesia Stock Exchange in 2014 and 2015 and conduct dividend announcement. Characteristics of research object studied is the return measured through abnormal return of observation period for 111 days, which are 11 observation days of windows period and 100 observation days of estimation period. Sampling is done by purposive sampling during the period of 2014 and 2015. The amount of samples that meet the criteria of sample selection during the period of 2014 and 2015 is 106 companies that make the announcement of cash dividends, consisting of 70 sharia companies and 36 conventional companies. Sample selection based on election criteria, can be seen in the following table:

Industrial Sub Sector	Number of Companies	Percentage
Adhesive	1	0.94
Advertising, Printing and Media	1	0.94
Agriculture,Forestry and Fishing	4	3.77
Animal Feed and Husbandry	1	0.94
Automotive and Allied Products	6	5.66
Banking	10	9.43
Cable	1	0.94
Building Contruction	3	2.83
Cement	3	2.83
Coal Mining	3	2.83
Construction	4	3.77
Consumer Goods	1	0.94
Credit Agencies Other Than Banks	1	0.94
Electronic and Office Equipment	2	1.89
Financial Institution	3	2.83
Food and Beverages	2	1.89
Holding and Other Investment Companies	2	1.89
Hotel and Travel Service	2	1.89
Insurance	4	3.77
Metal and Allied Products	1	0.94
Mining and Mining Service	6	5.66
Others	4	3.77
Paper and Allied Product	1	0.94
Pharmaceuticals	4	3.77
Plantation	2	1.89
Plastics and Glass Products	1	0.94
Property and Real Estate	3	2.83
Real Estate and Property	9	8.49
Retail Trade	2	1.89
Securities	3	2.83
Stone,Clay,Glass and Concreate Products	2	1.89
Textile, Garment	1	0.94
Toll Road, Airport, Harbor and Allied	1	0.94
Tobacco Manufactures	1	0.94

Tourism, Restaurant and Hotel	2	1.89
Transportation Servives	4	3.77
Wholesale and Retail Trade	5	4.72
Total	**106**	**100**

Source : Processed by author

VIII. HYPOTHESIS TESTING

In this research, hypothesis testing will be done after the classical assumption testing has been done which concluded that the data has normal distribution and has been free from interference multicollinearity, heteroscedastic and autocorrelation. The result of hypothesis testing with significance at 5% level is presented in the table below:

Table.1: Hypothesis Testing H1 to H8

			VALUE				
TEST	**VAR**	**Stock**	**B**	**Std.**	**Beta**	**Sig**	**DECISION**
H1	EPS	Convensional	0.001	0.000	0.864	0.000	Accepted
H2	EPS	Syariah	0.000	0.000	0.792	0.000	Accepted
H3	ROA	Convensional	0.033	0.013	0.209	0.011	Accepted
H4	ROA	Syariah	0.043	0.009	0.308	0.000	Accepted
H5	DER	Convensional	0.030	0.008	0.282	0.001	Accepted
H6	DER	Syariah	0.085	0.016	0.357	0.000	Accepted
H7	ROE	Convensional	0.035	0.015	0.090	0.021	Accepted
H8	ROE	Syariah	0.012	0.009	0.047	0.212	Rejected

Table.2 : Hypothesis Testing H9 to H10

			VALUE			
TEST	**VAR**	**STOCK**	**df**	**F**	**Sig**	**DECISION**
H9	EPS, ROA, DER, ROE	CONVENSIONAL	71	199.110	0.000	accepted
H10	EPS, ROA, DER, ROE	SYARIAH	139	177.610	0.000	accepted

IX. CONCLUSION

The conclusions of this research based on testing and analysis of data are as follows:

1. H_1 and H_2 hypothesis are accepted. The result of examining EPS impact to the abnormal return of stock showed a positive and significant influence on both conventional and sharia stocks. The results of this research is in line with signaling theory, with a signal given by the company then investors will know the financial condition of the company. Investors will be aware to the financial condition reflected in the EPS ratio, if the financial condition reflected in the EPS ratio increases, then the signal is used by investors to increase their interest in investing in conventional and sharia stocks, thus resulting in an increase in stock price as well as abnormal return of stock.
2. H_3 and H_4 hypothesis are accepted. The result of examining ROA impact to abnormal return of stock showed a positive and significant influence on both conventional and sharia stock. The result of this research is in line with signaling theory, with the given signal indicating how much net income after tax can be generated from the average of all the assets owned by the company. Investors will pay attention to the net income after tax as reflected in the ratio of ROA. If the net income after tax as reflected in the ROA ratio increases, then the signal is used by investors to increase their interest in investing in conventional and sharia stocks, thus resulting in an increase in stock price and also abnormal return of stock.
3. H_5 and H_6 hypothesis are accepted. The result of examining DER impact to abnormal return of stock showed a positive and significant influence on both conventional and sharia stocks. The result of this research is in line with signaling theory, with signal given by company in the form of information hence investor will know the amount of liabilities owned by company. Companies with high liabilities will have high risks, even companies can go bankrupt. This will cause investor is reluctant to invest the funds and cause a decreasing in stock price and also abnormal return of stock..
4. H_7 hypothesis is accepted. The result of examining ROE impact to abnormal return of conventional stock showed a positive and significant influence. The result of this research is in line with the signaling theory, with the signal given by the company then the investor will know the amount of income deserved by owner of capital, which is reflected in the ratio of ROE. If the income condition to which the owner of the capital has right reflected in the ratio of ROE increases, then the signal is used by investors to increase their interest to invest in conventional stock.
5. H_8 hypothesis is rejected. The result of examining ROE impact to abnormal return of stock showed insignificant influence. The result of this research is not in line with the signaling theory. The result of this hypothesis conclude that accounting information derived from the influence of variable ROE tends to not become a special consideration by investors in making decisions to invest in sharia stocks listed in Indonesia Stock Exchange period 2014-2015.

6. H_9 and H_{10} hypothesis are accepted, so it can be concluded that accounting information has a positive and significant effect on the abnormal return of stocks, both conventional stock and sharia shares in companies listed in Indonesia Stock Exchange period 2014-2015.

X. IMPLICATION

The implications derived from this research are to provide useful insights theoretically and practically.

1. From a practical point of view, this research provides evidence that accounting information can be used to assess the value of abnormal returns of company's shares listed in Indonesia Stock Exchange.
2. From a theoretical point of view, this research reinforces the concepts of the asset pricing model, especially Capital Asset Pricing Model in analyzing the effect of accounting information to abnormal return of company's shares listed in Indonesia Stock Exchange.

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