

## **CHAPTER I**

### **INTRODUCTION**

#### **1.1. Background of Study**

Capital market is one of important instruments in term of investment because it gives a big role to the wheel of economic sector. The developments of the company rely to the capital market to raise their long-term funds. In the other hand, the importance of capital market shows the development of the economics of the country. A good growth of the capital market condition will increase the economic growth of the country also. Based on the definition of capital market, capital market is where government and industry can raise long-term capital and investors can purchase and sell securities (Arnold, 2004).

The form of capital market is described as a fixed-income investment and equity investment. According to Brown & Reilly (2009), a fixed-income investment is having a contractually mandated payment schedule. Their investment contracts promise specific payments at predetermined times, although the legal force behind the promise varies and this affects their risks and required return. The instruments that include in fixed-income investment are Treasury Bonds, Government Agency Bonds, Municipal Bonds, Corporate Bonds, and Preferred Stock. While equity instrument is differ from fixed-income securities because their returns are not contractual (Brown & Reilly, 2009). The instruments that include in equity investment are Common Stock and other special equity instrument such as Warrants, and Puts and Calls.

The fluctuation of capital market performance can be influenced by many factors. Looking from the internal factors that come from within the company, the fundamental factor of

the company such as Price Earnings Ratio, Earning per Share, Net Profit Margin, Price to Book Value and Systematic Risk have the significant effect on Stock Price (Astuty, 2017). Besides, there are many other factors from external company that can affect the capital market, one of factors that can influence capital market is important news, both good and bad news.

The announcement to the country that will be the hosting country of International Sporting Events occurred on different reaction, the country will react as good news for the country but in the another hand, there are certain host countries that reacted the hosting of the International Sporting Events as bad news. The social and economic aspects are the example of sector influenced by the event.

There are further social effects benefiting local communities (Tien, Lo, & Lin, 2011). According to Yu (2004), based on the post-games report of Asian Games 2002 in South Korea it showed that the volunteer program at the 2002 Asian Games saw the recruitment of 17.096 volunteers to work in 31 areas, ranging from interpretation or translation to the operation and administration of the Games. Begin from the social perspective, there is an influence of international tourist and the tournament which is broadcasted globally (Hill, 2000). Sydney 2000 Olympic Games gave benefits to the tourism or convention industry in the country, the development of "Brand Australia" by 10 years, it means that the world would not have had such a strong impression of Australia until 2010 when Sydney did not host the Games. While in another hand, it is also possible that some tourism diversion may occur. Some tourists may avoid visiting the host city for fear of crowd, traffic congestion and crime. This may lead to a loss of tourist spending which would have otherwise been spent in the host city.

From the economic perspective, it is also influenced by the event. The host country of International Sporting Events received economic benefits in the form of new infrastructure and

foreign cash investments (Nauright, 2004). Another study from Yu (2004) also explained that international games have the potential of increasing economic activities arising from the games related expenditure and it also generate economic benefits such as job creation, provision of new sports facilities and infrastructure, urban revival, enhanced international profile, increased tourism or convention business and more inward investment. In other side, there are some differentiations in term of perspective, in fact the country will spend a lot of money to serve the guests properly, it gives the negative impact to the country's fund if the country does not ready to be a host country. According to Yu (2004), a poorly staged event can have a negative impact on the image of the host city. It take the evidence from Atlanta 1996 Olympic Games, that event received a lot of negative media coverage because of its failure to complete the entire transport system on schedule.

The stock market reacts positively to the good news (Edmans et al, 2007). The announcement of hosting country to the International Sporting Events tends to give good news for the host country. When the country decided to be a host country they will increase their infrastructure and facilities to serve the guests. By increasing the infrastructure, the infrastructure company's stock price will increase. To serve the guests properly, the country should give the best hospitality to them like hotel, beverage, and hospital industry, and it will increase those industries' stock price. In another side, the announcement would be a bad news to host country because the country should spend a lot of funds to fulfill the facilities to the guests. It is proved by the reaction of the host country's stock market. This announcement also can be a tool to know about the efficiency of market. According to Fama (1970), a security market is efficient if security prices fully reflected by the information available.

Martins & Serra (2007) indicated that host countries that win the bid to host an international sporting event show a positive reaction in stock market returns, while those countries that lose the bid show a negative reaction in stock market prices. This research will take the case of the announcement of XVIII ASEAN Games with the result that Indonesia wins the bid of the event. The way Indonesia wins the bid of XVIII Asian Games was quite different from the other. At first, Olympic Council of Asia (OCA) choose Hanoi (Vietnam) as the host country for XVIII Asian Games in 2019, they won the bid for the proposal as a host. At that time, Hanoi beat other areas that also nominate to host XVIII Asian Games they were Dubai and Surabaya, but Dubai withdrew at the last minute. In March 2014, Hanoi decided to reject to be the host country of XVIII Asian Games because of their economic and infrastructure that they face. Finally On April 17, 2014, Vietnamese Prime Minister Nguyen Tan Dung officially announced the withdrawal of Hanoi from host of the XVIII Asian Games. He cited the unpreparedness and economic recession as the main reason for the withdrawal and said that the state could not afford the construction of facilities and premises. After Hanoi resigned as host of the XVIII Asian Games, the Olympic Council of Asia (OCA) stated that Indonesia, China and the United Arab Emirates are the most likely candidates to be the host. Indonesia is considered a favorite, and then at a meeting in Kuwait, the OCA appointed Jakarta as host of the XVIII Asian Games with Palembang as the host of supporters. Indonesia's election decision to be officially hosted was decided on 20 September 2014 and during the closing ceremony of the 2014 Asian Games in Incheon, Indonesia was symbolically appointed by the OCA to be the host of the next Asian Games.

Another case of SEA Games (South East Asia), according to South East Asian Games Federation based on their Charter and Rules has written that the honor of holding the SEA

Games shall be entrusted to the NOC (National Committee of a South East Asian Country) of each country in rotation in alphabetical order. It means that the hosting country for SEA Games is based on the rotation. If the chosen country unable to accept the honor of holding the SEA Games in its turn shall inform the Council not later than one year after the Games had been awarded. The upcoming South East Asian Games had been awarded to Philippine that was announced when the closing of XXX SEA Games in Kuala Lumpur Malaysia.

According to the previous study by Ramdas et al. (2015), they tested about stock reaction to the hosting announcement of FIFA World Cup. They tested 5 countries from 5 FIFA World Cups between the period of 1994 and 2010, and they found that South Africa appears to show a positive trend in stock returns at the tournament announcement date, while Japan shows a decline in daily stock returns a day after the announcement of the tournament. It is found that for the tournament announcement on most countries show the abnormal return for stock market for different event windows.

From the explanation above, this research tested the announcement impact of hosting both Asian Games and South East Asia Games on host country stock market by looking to the impact in stock market of ASIAN Games (XVIII) announcement with Indonesia that was chosen to be the host country in 2018 and South East Asia Games (SEA) (XXX) announcement with Philippine that was chosen to be the host country in 2019.

## **1.2.Problem Formulation**

Based on the background above, the researcher identifies the problem as follows:

1. Is there any difference of *cumulative average abnormal return* in LQ45 stocks listed in the Indonesia Stock Market before and after the announcement of hosting the XVIII Asian Games?
2. Is there any difference of *cumulative average abnormal return* in PSEi stocks listed in the Philippine Stock Market before and after the announcement of hosting the XXX SEA Games?

### **1.3. Research Objective**

1. To know the difference of *cumulative average abnormal return* in LQ45 stocks listed in the Indonesia Stock Exchange before and after the announcement of hosting XVIII Asian Games.
2. To know the difference of *cumulative average abnormal return* in PSEi stocks listed in the Philippine Stock Exchange before and after the announcement of hosting XXX SEA Games.

### **1.4. Research Contribution**

1. Researcher

The research is expected to broaden the researcher knowledge and improve the skill of researcher in conducting research.

2. Future Researcher

This research is expected to enrich the knowledge needed to conduct research for the future researcher.

### 3. Investor

The result of this research is expected to be useful for the investors as a basis for investment decisions by looking at the impact of the announcement of hosting the International Sporting Events on host country stock market.

## **1.5. Writing System**

In writing this study, the author used systematic writing as follows:

### CHAPTER I: INTRODUCTION

This chapter contains things that will be discussed in the thesis. This chapter contains the background, problem formulation, research objectives, research contributions, and systematic writing.

### CHAPTER II: REVIEW OF RELATED LITERATURE

The theoretical basis of this research is the foundation of theory which will underlie the formation of hypotheses and basic research discussion.

### CHAPTER III: RESEARCH METHODS

This chapter contains the methodology, population and the study sample, as well as hypothesis testing.

### CHAPTER IV: DATA ANALYSIS AND DISCUSSION

This chapter outlines the general description and information from Indonesian Stock Exchange and Philippine Stock Exchange, test data, analysis and research results discussion.

## CHAPTER V: CONCLUSION AND RECOMMENDATIONS

This chapter outlines the conclusions that can be drawn based on the results of data processing and recommendations related to similar studies in the future.