

POLITICAL STABILITY AND CAPITAL MARKET SUSTAINABILITY: EVIDENCE FROM THE INDONESIAN STOCK MARKET

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Abstract

This study aims to analyze the reaction of the Indonesian capital market to the August-September 2025 National Protests and Riots. The study uses a quantitative approach with an event study method on all stocks listed on the Indonesia Stock Exchange. Market reaction is measured using three indicators, namely Abnormal Return (AR), Cumulative Abnormal Return (CAR), and Trading Volume Activity (TVA). AR and CAR are calculated using a market-adjusted model, while the observation period is conducted over 11 trading days, consisting of five days before the event, one day at the event, and five days after the event. The research sample consisted of 828 companies selected using the purposive sampling method. Hypothesis testing was carried out using the Wilcoxon Signed Rank Test according to the characteristics of the data distribution. The results showed significant differences in AR, CAR, and TVA values before and after the event. These findings indicate that the Indonesian capital market responds to these socio-political events, both in the form of changes in stock returns and stock trading activities. The significance of AR and CAR indicates that investors react to information that arises during the event period, thereby affecting abnormal profits and abnormal accumulation of stock returns. Meanwhile, significant differences in TVA indicate a change in investors' trading behavior in response to increased market uncertainty. Overall, the results of the study confirm that socio-political events have information content that can influence the dynamics of the Indonesian capital market and investor behavior in making investment decisions.

Keywords: Abnormal Return, Cumulative Abnormal Return, Trading Volume Activity, Market Reaction, Political Instability

INTRODUCTION

The capital market acts as a means of raising long-term funds as well as an investment medium that reflects the economic conditions and stability of a country (Hillier & Loncan, 2019; Alim et al., 2024). In financial theory, the relationship between information and stock prices is explained through the Efficient Market Hypothesis (EMH), which states that stock prices reflect all the information available in the market (Fama, 1970). However, various empirical findings show that markets do not always react rationally. Investors often overreact to certain information, especially that related to economic uncertainty and socio-political events, thus triggering short-term volatility (De Bondt & Thaler, 1985; Shiller, 2003; Barrett et al., 2024).

Several international studies show that large-scale socio-political events, such as demonstrations and social unrest, can negatively impact stock market performance. Barrett et al. (2024) and Bhambhwani (2022) found a significant decline in Abnormal Returns during periods of

social unrest, reflecting the increasing perception of risk among investors. The findings show that the capital market is highly sensitive to developing socio-political dynamics.

The Indonesian capital market has different characteristics due to the relatively high dominance of retail investors, so market movements tend to be more responsive to public information, including political and social issues (Akhmd Sadeli & Bongaya, 2021). Some domestic studies show inconsistent results. Widagdo & Satiti (2018) and Rentini & Herawati (2020) found that demonstrations do not necessarily generate significant Abnormal Returns or Cumulative Abnormal Returns, despite an increase in trading activity. Meanwhile, other research suggests that the market's reaction to the rally is temporary and varied (Setyawati & Widarjo, 2023). These differences in findings show that there is an empirical gap between the Indonesian capital market and markets in other countries. To clarify the map of the research that has been carried out and the position of this research, the following table of relevant previous research summaries is presented:

Table 1. Research Gap

No	Variable	Issues	Researchers	Result
1	Abnormal Return (AR)	The high value of Abnormal Return illustrates that there is an influence before and after the demonstration event, so it can be said that there is a difference between the two. However, some studies have shown different results where no significant abnormal returns were found in demonstration events.	(Al-Awadhi et al., 2025; Ba et al., 2023; Barrett et al., 2024; Bhambhwani, 2022; French et al., 2024; Widagdo & Satiti, 2018)	There are significant differences
			(Ady, 2018; Rentini & Herawati, 2020; Setyawati & Widarjo, 2023; Soraya, 2023)	No significant difference
2	Cumulative Abnormal Return (CAR)	A high value of Cumulative Abnormal Return indicates the accumulated impact of an event on the stock's return during the observation period. However, some studies have found that CAR does not show a significant difference in demonstration events.	(Akhtaruzzaman et al., 2025; Al-Awadhi et al., 2025; Barrett et al., 2024; Bhambhwani, 2022; Yudaruddin et al., 2025)	There are significant differences
			(Setyawati & Widarjo, 2023)	No significant difference
3	Trading Volume Activity (TVA)	The high value of Trading Volume Activity indicates a change in stock trading activity that reflects the investor's response to an event.	(Bhambhwani, 2022; Widagdo & Satiti, 2018)	There are significant differences
			(Ady, 2018; Rentini & Herawati, 2020)	No significant difference

At the end of August 2025, Indonesia experienced National Protests and Riots that lasted until September 2025 and involved various community groups in many regions (Octaviyani, 2025).

This incident was triggered by the policy of increasing housing allowances for members of the House of Representatives of the Republic of Indonesia and developed into a wave of high-intensity national protests. During this period, the Jakarta Composite Index (JCI) experienced sharp fluctuations reflecting the increasing perception of political risks among investors.

This study analyzed stocks listed on the Indonesia Stock Exchange (IDX) during the observation period. To assess the market's reaction to these events, this study uses an event study approach by measuring Abnormal Return, Cumulative Abnormal Return, and Trading Volume Activity. This approach was used to test whether the August–September 2025 National Protests and Riots contained information that influenced investor behavior in the Indonesian capital market.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

The Relationship of Demonstration Events to Capital Market Reactions

Efficient Market Hypothesis (EMH) declares that the stock price will adjust rapidly to any relevant public information (Fama, 1970). Socio-political events such as national demonstrations include public information that is widely disseminated through mass media and social media, thus potentially influencing investors' expectations of political and economic stability. Under these conditions, investors will make portfolio adjustments that are reflected through changes in stock prices and trading activities.

Market Reaction to Abnormal Returns

Abnormal Return reflects the difference between the actual return and the expected return, so it is used to identify whether an event contains information that affects the value of the stock (Fama et al., 1969). As information about large-scale demonstrations begins to spread, investors tend to evaluate their potential impact on the investment climate and the company's performance. If the event is perceived as an increase in political risk, investors will respond with a sell-off, which encourages the occurrence of negative abnormal returns (Barrett et al., 2024).

Previous research has shown mixed results. Widagdo & Satiti (2018) found that large demonstrations in Indonesia do not always elicit significant abnormal returns, while international research finds stronger negative impacts during periods of social unrest (Bhambhwani, 2022; Al-Awadhi et al., 2025). This difference suggests that the reaction of Abnormal Returns is highly dependent on the scale, intensity, and perception of investors to the impact of the event. The August–September 2025 National Protests and Riots have a larger scale and escalation than previous demonstration events, so they have the potential to cause differences in Abnormal Returns before and after the event.

Based on this description, the first hypothesis is formulated as follows:

H1: There is a difference in the Abnormal Return of stocks on the IDX before and after the August–September 2025 National Protests and Riots.

Market Reaction to Cumulative Abnormal Returns

Cumulative Abnormal Return (CAR) is used to capture the cumulative impact of an event over an event window period, especially when information develops gradually (Mackinlay, 1997). The nationwide demonstrations that lasted for several weeks caused information not to enter the market all at once, but to develop along with the escalation and subsidence of the mass action. Under these conditions, the CAR is expected to reflect the price adjustment that occurred gradually during the observation period (Ady, 2018).

Previous research suggests that large-scale political events can produce significant negative CARs in the short term, before the market readjusts (Barrett et al., 2024; Bhambhwani, 2022; Al-Awadhi et al., 2025). In Indonesia, some studies have found that CAR does not always show

significant differences in demonstration events (Rentini & Herawati, 2020; Setyawati & Widarjo, 2023). These inconsistencies in findings open space for retesting how CAR reacts to larger-scale, higher-intensity demonstrations.

Based on these arguments, the second hypothesis is formulated as follows:

H2: There is a difference in the Cumulative Abnormal Return of stocks on the IDX before and after the August-September 2025 National Protests and Riots.

Market Reaction to Trading Volume Activity

In addition to changes in stock prices, the market's reaction to new information is also reflected through changes in trading volumes. Trading Volume Activity (TVA) describes the level of stock transaction activity and is used to detect investors' response to an event (Widagdo & Satiti, 2018). When there is political uncertainty, investors with different risk preferences will adjust their portfolios through buying and selling, thus encouraging increased trading activity (Fama, 1970).

Some studies have found that demonstrations and social unrest significantly increase trading volumes as investors actively respond to evolving information (Barrett et al., 2024; Alim et al., 2024). However, other research shows that TVA doesn't always change significantly, especially when investors choose to take a wait-and-see attitude amid uncertainty (Rentini & Herawati, 2020; Setyawati & Widarjo, 2023). The difference in results indicates that the change in TVA is strongly influenced by the scale of events and the intensity of investor responses.

The August-September 2025 National Protests and Riots were marked by an escalation of conflict, casualties, and disruption of economic activities, so it is expected to trigger a more active transaction response than previous demonstrations. Therefore, the third hypothesis is formulated as follows:

H3: There is a difference in the Trading Volume Activity of stocks on the IDX before and after the August-September 2025 National Protests and Riots.

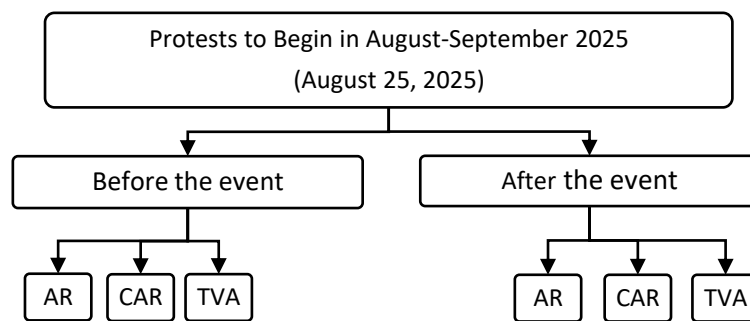


Figure 1. Research Framework

RESEARCH METHODS

This study uses a quantitative approach with the event study method to analyze the reaction of the Indonesian capital market to the August-September 2025 National Protests and Riots. The event study method is used to identify the information content of an event through changes in stock performance around the date of the event (Mackinlay, 1997; Bhambhwani, 2022).

The object of the study was the stocks listed on the Indonesia Stock Exchange during the observation period. The research data is in the form of secondary data obtained from the Indonesia Stock Exchange and Yahoo Finance, including daily stock closing prices, trading volume, number of

outstanding shares, and market index data. The observation period uses an event window of 11 trading days, i.e., five trading days before the event ($t-5$), the event day (t_0), and five trading days after the event ($t+5$), to capture the market reaction before and after the event and minimize the influence of other events (Saragih, 2019; Yulianti & Rizkiyah, 2020).

The research sample was determined using the purposive sampling method with the criteria of stocks listed on the Indonesia Stock Exchange (IDX) and did not carry out corporate actions during the observation period (Sugiyono, 2019). Based on these criteria, 828 companies were obtained as a research sample. The variables used include Abnormal Return (AR), Cumulative Abnormal Return (CAR), and Trading Volume Activity (TVA). Abnormal Return is calculated as the difference between the actual return and the expected return (Fama et al., 1969; Mackinlay, 1997). Actual returns are calculated based on changes in the daily closing price of stocks, while expected returns are calculated using a market-adjusted model with the formula:

$$R_{it} = \frac{P_{it} - P_{it-1}}{P_{it-1}}, E(R_{it}) = R_{mt}, AR_{it} = R_{it} - E(R_{it})$$

Cumulative Abnormal Return (CAR) is calculated as the accumulation of Abnormal Returns over the event window period to capture the impact of events on an ongoing basis (Mackinlay, 1997; Kothari et al., 2007), with the formula:

$$CAR_i(t_1, t_2) = \sum_{t=t_1}^{t_2} AR_{it}$$

Trading Volume Activity (TVA) is used as a stability test variable to strengthen the analysis of market reactions and is calculated as the ratio of the number of shares traded to the number of shares outstanding (Widagdo & Satiti, 2018; Rentini & Herawati, 2020), with the formula:

$$TVA_{it} = \frac{\sum \text{Share are traded on the day } t}{\sum \text{Outstanding Share}}$$

Data analysis begins with descriptive statistics to describe the characteristics of the research data. Next, a normality test was carried out using the Shapiro–Wilk test to determine the hypothesis testing method. If the data is normally distributed, the test is carried out using the Paired Sample t-Test, while if the data is not normally distributed, the Wilcoxon Signed Rank Test is used (Field, 2018; Ghozali, 2018).

The data used in this study are secondary data in the form of quantitative time series and cross-sectional data of stocks listed on the Indonesia Stock Exchange during the event window period. The data includes the daily closing price of the stock, the daily trading volume, the number of shares outstanding, as well as the market index data used to calculate the market return. All data is obtained through the official website of the Indonesia Stock Exchange, as well as online financial data providers such as Yahoo Finance and Investing. The data collection technique is carried out by the documentation method, namely by tracing, recording, and processing historical data that has been published according to the observation period.

The data analysis begins with descriptive statistics to describe the characteristics of the research variables, including the minimum, maximum, average, and standard deviations of AR, CAR, and TVA during the event window period (Ghozali, 2018; Hair et al., 2019). Next, a normality test was carried out using the Shapiro–Wilk test. If the data meet the assumption of normality, hypothesis testing is carried out using the Paired Sample t-Test to compare the mean values of variables before and after the event. Conversely, if the data is not normally distributed, hypothesis

testing is performed using the Wilcoxon Signed Rank Test as a non-parametric alternative (Field, 2018; Ghozali, 2018).

In addition to the main test, this study also conducted a robustness test using Trading Volume Activity (TVA) as a comparative variable to assess the consistency of the research results. The use of TVA as a resilience test aims to ensure that market reactions identified through changes in stock prices are also reflected in trading activity, so that the results of the research are not sensitive to one testing approach (Brooks, 2019; French et al., 2024).

RESULTS AND DISCUSSION

Descriptive Statistical Results

Table 2. Descriptive Statistical Results

	N	Minimum	Maximum	Mean	Std. Deviation
AR_before	828	-0.0559	0.1876	0.012159	0.0236495
AR_after	828	-0.0624	0.2229	0.004663	0.0260094
CAR_before	828	-0.2796	0.9379	0.060796	0.1182473
CAR_after	828	-0.3119	1.1147	0.023313	0.1300470
TVA_before	828	0.0000	0.3593	0.006258	0.0221914
TVA_after	828	0.0000	0.2083	0.006132	0.0156112
Valid N (listwise)	828				

Source: SPSS output, 2026

The descriptive statistical table shows an overview of the research variables consisting of Abnormal Return (AR), Cumulative Abnormal Return (CAR), and Trading Volume Activity (TVA) before and after the August-September 2025 National Protests and Riots. Descriptive statistics include the minimum, maximum, mean, and standard deviation values of each variable.

The results of the analysis showed that the average value of abnormal return before the event (AR_before) was 0.012159, while after the event (AR_after) decreased to 0.004663. This decline shows that the average abnormal profits earned by investors decreased after the socio-political event. In addition, the standard deviation of AR increased from 0.0236495 to 0.0260094, indicating that the fluctuation in stock returns after the event became higher and the market experienced increased uncertainty.

In the cumulative abnormal return variable, the average value of CAR_before was 0.060796 and decreased significantly to 0.023313 in CAR_after. This shows that the accumulation of abnormal profits of investors weakens after the event. The standard deviation of the CAR also increased from 0.1182473 to 0.1300470, reflecting the increase in the volatility of the stock's cumulative return in the period following the event.

Meanwhile, in the Trading Volume Activity (TVA) variable, the average value TVA_before 0.006258 and decreased slightly to 0.006132 in TVA_after. This decline shows a tendency to reduce stock trading activity after the event occurred. On the other hand, the standard deviation of TVA decreased from 0.0221914 to 0.0156112, which indicates that stock trading activity after the event tends to be more stable than in the previous period.

Overall, the results of descriptive statistics show that the August-September 2025 National Protests and Riots were responded to by the Indonesian capital market through a decrease in abnormal returns, cumulative abnormal returns, and stock trading activities. This condition indicates an increase in investor caution and a change in market behavior in response to increasing uncertainty due to socio-political events that occur.

Normality Test and Hypothesis Testing Results

Table 3. Normality Test Result

Variable	Shapiro-Wilk			Description
	Statistic	df	Sig.	
AR_before	0.787	826	0.000	Abnormal
AR_after	0.775	826	0.000	Abnormal
CAR_before	0.787	826	0.000	Abnormal
CAR_after	0.775	826	0.000	Abnormal
TVA_before	0.265	826	0.000	Abnormal
TVA_after	0.407	826	0.000	Abnormal

Source: SPSS output, 2026

The results of the Shapiro–Wilk normality test showed that the AR, CAR, and TVA data before and after the event were abnormally distributed. Therefore, the differential testing of AR, CAR and TVA is carried out using the Wilcoxon Signed Rank Test.

Table 4. Wilcoxon Signed Rank Test Result

	AR_after - AR_before	CAR_after - CAR_before	TVA_after - TVA_before
Z	-9.214 ^a	-9.214 ^a	-3.987 ^b
Asymp. Sig. (2-tailed)	0.000	0.000	0.000

a. Based on positive ranks

b. Based on negative ranks

Source: SPSS output, 2026

Based on the results of the Wilcoxon Signed Rank Test in Table 4, it is known that all research variables show an Asymp. Sig. (2-tailed) value of 0.000 or less than 0.05. Thus, it can be concluded that there are significant differences between the conditions before and after the August-September 2025 National Rally and Riot.

In the abnormal return (AR) variable, a Z value of -9.214 with a significance level of 0.000 was obtained. These results show that there is a significant difference between abnormal returns before and after the event. The findings indicate that the capital market responds to socio-political events that occur which affect the abnormal returns of stocks.

Furthermore, the cumulative abnormal return (CAR) variable also showed a Z value of -9.214 with a significance of 0.000. These results prove that there is a significant difference in cumulative abnormal returns before and after the event. This condition shows that the accumulation of abnormal returns of investors has changed due to the information and uncertainty caused by the event.

Meanwhile, the trading volume activity (TVA) variable obtained a Z value of -3.987 with a significance value of 0.000. This result indicates that there is a significant difference in stock trading volume activity before and after the event. Thus, socio-political events not only affect stock returns, but also affect investors' trading behavior in the capital market.

Overall, the results of the Wilcoxon Signed Rank Test show that the Indonesian capital market reacted to the August-September 2025 National Protests and Riots. This reaction is reflected in

significant changes in abnormal returns, cumulative abnormal returns, and trading volume activity before and after the event.

The results showed that there were significant differences in abnormal returns (AR), cumulative abnormal returns (CAR), and trading volume activity (TVA) before and after the August-September 2025 National Protests and Riots. These findings show that the Indonesian capital market responds to socio-political events that occur. From the perspective of the Efficient Market Hypothesis, the capital market will react to all information that investors consider relevant, including non-economic information such as demonstrations, social conflicts, and political instability. This reaction is reflected in changes in stock prices, returns, and stock trading activities.

The decline in the average abnormal return after the event indicates that investors are assessing the event as bad news that increases market uncertainty. Socio-political instability tends to increase risk perception so that investors become more cautious in making investment decisions. This condition causes selling pressure on stocks and has an impact on abnormal return declines. The results of this study are in line with the research (Bhambhwani, 2022; Al-Awadhi et al., 2025; Widagdo & Satiti, 2018), which found significant differences in abnormal returns before and after the demonstration event. The study shows that information that creates uncertainty can affect investor perceptions and trigger capital market reactions.

In addition, the results of the study also showed a significant difference in cumulative abnormal return (CAR). This shows that the impact of socio-political events is not only temporary but also affects the accumulation of investor returns during the observation period. The decline in CAR after the event indicates that negative market sentiment lasted for several days after the event. Investors tend to take a wait-and-see approach or shift their investments to instruments that are considered safer to reduce the potential risk of loss. These findings support research (Akhtaruzzaman et al., 2025; Bhambhwani, 2022; Al-Awadhi et al., 2025; Yudaruddin et al., 2025), which found that demonstration events were able to affect cumulative abnormal returns and create higher market volatility.

In the trading volume activity (TVA) variable, the results showed significant differences before and after the event. This indicates that investors are responding not only to information through changes in stock prices, but also through changes in the intensity of stock trading. An increase or change in trading activity indicates that investors are actively making portfolio adjustments in response to increasing market uncertainty. These findings are in line with research by Widagdo & Satiti (2018), Setyawati & Widarjo (2023), and Bhambhwani (2022), which found that national political events can affect the trading volume of stock activity.

The results of this study also strengthen the research by Ananta & Darmayanti (2025), which states that political information contains information that can influence the reaction of the Indonesian capital market. Political and social events often increase uncertainty over economic conditions and national stability, so investors respond by changing their investment decisions.

Overall, the results of the study confirm that the Indonesian capital market is quite sensitive to national socio-political events. Demonstrations and riots not only affect stock returns but also affect investors' trading behavior in the capital market. Thus, social and political stability is an important factor in maintaining investor confidence and creating stable capital market conditions. This study also shows that the simultaneous use of AR, CAR, and TVA indicators can provide a more comprehensive picture of the market's reaction to a non-economic event.

Novelty of Findings

This research has some novelty compared to previous studies. First, this study examines the reaction of the Indonesian capital market to the August-September 2025 National Protests and Riots, which until now has been very limited in the context of event studies in the Indonesian capital market. Most previous research has focused more on economic events, pandemics, elections, and

government policies, while research on the impact of national social unrest on capital markets is still relatively small.

Second, this study not only uses abnormal return (AR) as an indicator of market reaction but also combines cumulative abnormal return (CAR) and trading volume activity (TVA) simultaneously. The use of these three indicators provides a more comprehensive picture of the market response, both in terms of changes in abnormal stock profits and changes in investor trading behavior. Thus, this study can capture market reactions in more depth than previous studies, which generally only use one or two market indicators.

Third, this study uses a wider sample scope, namely all companies listed on the Indonesia Stock Exchange, with a total of 828 companies. The use of large samples provides a stronger representation of the overall state of the Indonesian capital market compared to previous studies, which generally only used certain indices such as LQ45 or Kompas100.

Fourth, the results of the study found that national socio-political events not only affect abnormal returns and cumulative abnormal returns, but also significantly affect trading volume activity. These findings show that investors in the Indonesian capital market react not only through changes in stock prices, but also through changes in the intensity of stock trading as a form of portfolio adjustment to market uncertainty.

Thus, this study makes a new empirical contribution to the capital market literature, especially related to how the Indonesian capital market responds to national-scale socio-political events through changes in returns and stock trading activities.

CONCLUSION

This study aims to analyze the reaction of the Indonesian capital market to the August-September 2025 National Protests and Riots using abnormal return (AR), cumulative abnormal return (CAR), and trading volume activity (TVA) indicators. Based on the results of the analysis using the event study method, it can be concluded that there are significant differences in AR, CAR, and TVA values before and after the event.

The results of the study show that the socio-political events contain information that is responded to by investors and the Indonesian capital market. The decline in the average value of AR and CAR after the event indicates a negative market response due to increased uncertainty and investor risk perception. In addition, significant differences in the TVA indicate that investors are also adjusting their stock trading activities in response to volatile market conditions.

The findings of this study prove that the Indonesian capital market is quite sensitive to national socio-political events. The market reaction is not only reflected in changes in stock returns, but also in changes in stock trading activity. Thus, social and political stability is an important factor in maintaining investor confidence and capital market stability.

This research makes an empirical contribution to the development of event study literature, especially related to the influence of socio-political events on the capital market in Indonesia. In addition, the study also provides practical implications for investors, governments, and capital market regulators in understanding market dynamics during periods of social and political uncertainty.

Further research is suggested to expand the observation period and compare various types of socio-political and economic events to gain a more comprehensive understanding of the reaction of the Indonesian capital market. The next researcher can also add other variables, such as stock volatility, bid-ask spread, investor sentiment, and certain industry sectors to enrich the analysis of the market's response to an event.

For companies and investors, it is advisable to pay more attention to national social and political conditions in making investment decisions because non-economic events are proven to affect stock returns and trading activities in the capital market. Investors also need to implement a

good portfolio diversification and risk management strategy to minimize potential losses due to increased market volatility during periods of socio-political uncertainty.

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