

Analysis of impact of the multi tick size policy toward market liquidity in Jakarta stock exchange

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Abstrak

ABSTRAK

Trading mechanism used in every stock exchange will influence the price determination. The tick size policy is one of trading rule mechanism, which will shift market behavior toward price determination. Tick size is the minimum price change in regular market. Jakarta Stock Exchange is an exchange, which implements order - driven market environment. Management of Jakarta Stock Exchange has changed the tick size policy twice during year 2001. The first change was done in July, 2001, which is to reduce the tick size nominal from Rp 25 to Rp 5. The second change, started in October 2001, is to implement the multi tick size policy, and the tick size used are Rp 5, Rp 25 and Rp 50 applies to any stocks according to their category.

When tick size was reduced in the first change, market react negatively to the implementation of Rp 5 tick size. In response to negative reaction, Management of Jakarta Stock Exchange implements the multi tick size policy, with the purpose of increasing market liquidity and reducing volatility.

Market liquidity is quite difficult to be defined, however, to common investors, one stock is said to be liquid, if they could sell the stock easily at their convenient price and time. The research conducted in this thesis, observe the impact of multi tick size policy toward market liquidity. Indicators used in this research to observe market liquidity are market spread, market depth and trading volume.

Result of this research shows that the policy of multi tick size is effective and efficient for low and medium price of stocks especially for indicators market depth and trading volume. However, for high price stock the policy is not effective, since tick size is not one of the factor, which influence any indicators for high price stocks.