The Aspect of Market Microstructure on Indonesian Stock Exchange (IDX)

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This study investigates the effect of the types of information, especially economic news and firm specific information on trading activities at Jakarta Stock exchange using intra day data over the period 1995-2003.

Main results:

- Asymmetry effects of information is found with positive information affecting price volatility and trading volume more than negative information. Also, foreign and domestic investors are influenced by differing factors.
- Foreign investors are influenced more by economic news than firm specific Information, while domestic investors are influenced by firm specific announcements.

This paper has basically adapted Easly, Kiefer,Ohara,Paperman (EKOA here after) model to analyze the response of economic news and information. Though there are many issues attached with this paper, I want to focus on the following:

- The research model used;
- estimation and inference;
- Reconciling this with other findings

On the research model used:

- The above mentioned EKOA paper is on NYSE, which is a hybrid system, where the market maker has to compete with a limit order book.
  - EKOA explicitly model their paper on a market maker's beliefs about the strength of a signal and how the parameters of his beliefs can be estimated using trade data.
  - Since there are no centralized decision makers in a purely order driven market, prices arise due to an inter action of a larger number of traders, each of which could be strategic. The presence of informed and uniformed traders complicate this issue even more.

- So, on what or on whom, is the present paper built? This paper says that one day only one information (only one firm is analyzed because asset values of firms essentially independent?) and only one information is announced (who announces that information)
- Also, this paper considers only buy or sell. It is also quite likely there was No sale. How shall this aspect be handled?

About the estimation and inference:

Many disturbing issues are there but the following important issue has to be pointed out:

- This paper has used classical statistics to perform inference. But since the parameters, like arrival parameters, λ and ϵ are restricted to be non-negative and there are also probabilities attached to a good and a bad signal, they obviously violate the normality assumption needed by the classical statistical procedures. It would be difficult to justify the use of such classical test procedures.
- So an alternative would be to use some non-parametric procedures (like the Kruscall-Wallis test) or if possible bootstrap the empirical distributions since the sample size is substantial.

Reconciling the findings with other studies:

Some efforts should be expended to analyze the reasons for the findings of this paper. And it is important to reconcile this with other similar papers on the Indonesian market itself.

- General feeling is foreign investors under perform domestic investors in the Indonesian market. Some possible hypotheses suggested in the literature are:
    - Domestic investors have information advantage. This is essentially explained by the role played by global brokerages which have long-term information advantage over local brokerages.
    - Poor timing of trade is attributed
    - Aggressive trading and trading on non-initiated orders

References

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