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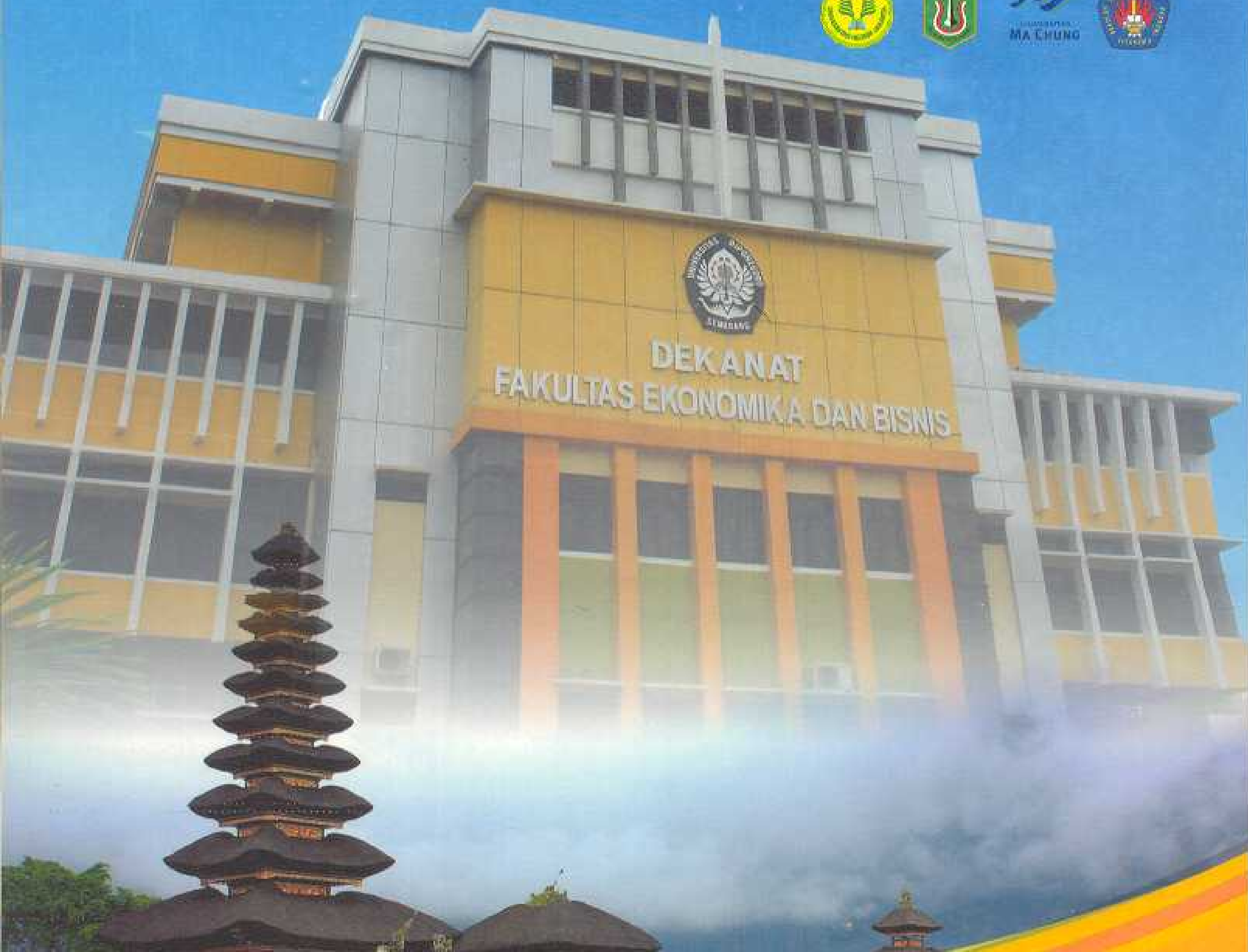

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DEAN'S WELCOME

Assalamu'alaikum!

Dear participants,

Welcome to Bali, Indonesia. We are very sure that The Second International Seminar on Finance held by IFMA and Faculty of Economics and Business Diponegoro University will provide a perfect forum for you to have an academically-challenging conference. It is indeed great to see that this conference has attracted many participants from around the world.

I am personally pleased and felt deeply honored that many experts from the field of finance can gather here to disseminate the up-dated researches. We also honored as Prof Maureen O'Hara (Cornell University) and Prof. Marti Subrahmanyam (New York University) will join with us as a keynote speakers.

We hope that this conference not only provide a forum for disseminate current research but also act as a room to increase networking as well as exploring opportunities for future collaboration.

Again, I wish you a fruitful conference and a pleasant stay in Bali, Indonesia.

Thank you,

Anis Chariri, PhD

Acting Dean,

Faculty of Economics and Business

Diponegoro University, Central Java, Indonesia

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PROGRAM

DAY	HOUR	PROGRAM
Monday, December 15	16.15-18.00	Registration
Tuesday, December 16	08.00-15.00	Registration
	08.30-10.30	Concurrent Sessions I
	10.30-10.40	Coffee Break
	10.40-11.00	Welcoming Speeches - IFMA - Faculty of Economics and Business, Diponegoro University - Vision of Bank Mandiri
	11.00-11.50	Keynote Speech by Marti Subrahmanyam Bale Banjar Ballroom
	11.50-13.20	Lunch
	13.20-15.20	Concurrent Sessions II
	15.20-15.30	Coffee Break
	15.30-17.30	Concurrent Sessions III
	19.00-22.00	Dinner
Wednesday, December 17	07.30-10.00	Registration
	08.00-10.00	Concurrent Session IV
	10.00-10.10	Coffee Break
	10.10-11.00	Keynote Speech by Maureen Ohara Bale Banjar Ballroom
	11.00-11.10	Best Paper Award and Closing
	11.30-13.00	Lunch
Thursday, December 18	08.30-night	Tour

PROGRAM SCHEDULE

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Session chair	Adrian Lee (University of Technology Sydney)	Juliana Malagon (Durham University)	Irwansyah (Universitas Mulawarman)	Putu Agus Ardiana (Udayana University)	Sunny Hersona (Universitas Negeri Singaperbangsa Karawang)
	"Differential Access to Price Information in Financial Markets" David Easley (Cornell University) Maureen O'Hara (Cornell University) Liyan Yang (University of Toronto)	"Information Transfer Effect of Bond Rating Downgrades within the Industry and along the Supply Chain: Evidence from CDS Market" Feng-Tse Tsai (Asia University) Jung-Hsien Chang (National Chi Nan University)	"How are Proceeds from Seasoned Equity Offerings Used?" E. Han Kim (University of Michigan) Heuijung Kim (Sungkyunkwan University) Yuan Li (Tsinghua University) Yao Lu (Tsinghua University)	"Optimal Hedge Ratio Estimations and Hedging Effectiveness: Case Study in Asia's Commodity Futures Exchange" Tanachote Boonvorachote (Kasetsart University) Varinee Chotiruchitrakul (Kasetsart University)	"Determinasi tingkat pengungkapan pada bank syariah di dunia" Krisno Septyan (UPN "VETERAN" JAKARTA) Erna Hernawati (UPN "VETERAN" JAKARTA)
Discussant	Arze Karam (Durham University)	Jeffrey L. Callen (University of Toronto)	William Megginson (University of Oklahoma)	Harjum Muharam (Diponegoro University)	Moh. Nofal (Tadulako University)
	"Market quality and informed liquidity supply: Insights into Nasdaq market makers' behavior" Arze Karam (Durham University)	"Short Interest and Stock Price Crash Risk" Jeffrey L. Callen (University of Toronto) Xiaohua Fang (Georgia State University)	"Prestige without purpose: Reputation, differentiation, and pricing in U.S equity underwriting" Chitru S. Fernando (University of Oklahoma) Vladimir A. Gatchev (University of Central Florida) Anthony D. May (Wichita State University) William L. Megginson (University of Oklahoma)	"The Impact of the Domestic Interest Rates, Exchage Rate, World Oil Prices, World Gold Prices, DJIA, Nikkei 225 and HSI on the JCI" Faris Hamam Syarofi (Diponegoro University) Harjum Muharam (Diponegoro University)	"Identifikasi variabel penyebab kurang optimalnya penyaluran kredit perbankan periode tahun 2008 – 2012 (Studi pada PT. Bank Pembangunan Daerah (BPD) Konvensional di Indonesia)" Siti Puryandani (Universitas Diponegoro) Eka Handriani (Universitas Diponegoro)
Discussant	Terry Walter (University of Sydney)	Quentin C. Chu (University of Memphis)	Heuijung Kim (Sungkyunkwan University)	Tanachote Boonvorachote (Kasetsart University)	Krisno Septyan (UPN "VETERAN" JAKARTA)
	"Do Frictions Associated with Market Microstructure Explain the Ex-Dividend Day Anomaly?" Anlijew Ainsworth (University of Sydney) Adrian Lee (University of Technology Sydney) Terry Walter (University of Sydney)	"The Flow of Inflation Information and the Pricing of Maturing TIPS" Quentin C. Chu (University of Memphis) Pawan Jain (Central Michigan University)	"The Organization of Bank Affiliates; A Theoretical Perspective on Risk and Efficiency" Elisa Luciano (University of Torino) Clas Wihlborg (Chapman University)	"Superstition and prices in residential real estate transactions" Danika Wright (University of Sydney)	"Is External Finance Enhance Profitability ? An Empirical Evidence From Ficheries MicroBusiness in Central Sulawesi" Moh. Nofal (Tadulako University)
Discussant	Chongwu Xia (Nanyang Technological University)	Gilbert V. Nartea (Lincoln University)	Abdullah Mamun (University of Saskatchewan)	Budi Frensidy (University of Indonesia)	Siti Puryandani (Universitas Diponegoro)
	"Social Networks, Alliance, and the Informational Efficiency of Stock Prices" Zhanhui Chen (Nanyang Technological University) Jiang Luo (Nanyang Technological University) Chongwu Xia (Nanyang Technological University)	"Do extreme returns matter in emerging markets? Evidence from the Chinese stock market" Gilbert V. Nartea (Lincoln University) Ji Wu (Xiamen University) Zhaohua Li (Lincoln University)	"Are Banks Using Credit Derivatives to Reduce Loan Rates to Borrowers?" Nimita Azam (North South University) Abdullah Mamun (University of Saskatchewan) George F. Tannous (University of Saskatchewan)	"The performance of undiversified portfolio in Indonesia stock exchange" Budi Frensidy (University of Indonesia)	
Discussant	David Easley (Cornell University)	Feng-Tse Tsai (Asia University)	Clas Wihlborg (Chapman University)	Danika Wright (University of Sydney)	-

Day 1, 13.20 - 15.20

Room	BALE KUTA	BALE PASEBAN III	BALE PASEBAN IV	BALE PESAMUAN	BALE BANJAR (INDONESIA LANGUAGE SESSION)
Session chair	Margaret Rui Zhu (City University of Hong Kong)	Lu Liu (Lund University)	Shin S. Ikeda (National Graduate Institute for Policy Studies)	Craig L. Ismelsen (Utah Valley University)	Moh. Nofal (Tadulako University)
	"Insights on the global macro-finance interface: Structural sources of risk factors fluctuations and the cross-section of expected stock returns" Claudio Morana (Università di Milano Bicocca)	"The Influence of Individual Investors on Ex-Dividend Day Returns" Andrew Ainsworth (University of Sydney) Adrian D. Lee (University of Technology Sydney)	"Returns and Doubling Times" Richard Philip (University of Sydney) Peter Buchan (University of Sydney) Graham Partington (University of Sydney) Steve Satchell (University of Sydney)	"The increasing of financial performance with ownership structure" Maya Indriastuti (Sultan Agung Islamic University)	"Desain Model Pembelajaran Audit Berbasis Risiko Sebagai Strategi Peningkatan Kualitas Calon Auditor" Suzy Noviyanti (Universitas Kristen Satya Wacana) Supatmi (Universitas Kristen Satya Wacana)
Discussant	Ole Wilms (University of Zurich)	Hitoshi Takehara (Waseda University)	Theo Vermaelen (INSEAD)	Pristina H. Setianingrum (STEI)	Budhi Pamungkas Gautama (Universitas Pendidikan Indonesia)
	"Solving Asset-Pricing Models with Recursive Preferences" Walter Pohl (University of Zurich) Karl Schmedders (University of Zurich) Ole Wilms (University of Zurich)	"Price Discovery Process before and after the Introduction of "arrowhead" Trading System at Tokyo Stock Exchange" Keiichi Kubota Chuo University) Hitoshi Takehara (Waseda University)	"Buybacks Around the World: Market Timing, Governance and Regulation" Alberta Manconi (Tilburg University) Urs Peyer (INSEAD) Theo Vermaelen (INSEAD)	"The effect of foreign exchange rate, inflation rate and market return on return of bank persero' stock" Doddi Prastuti (STEI) Pristina H. Setianingrum (STEI)	"Perancangan standar biaya pendidikan berbasis activity-based costing dalam meningkatkan mutu pendidikan di perguruan tinggi" Budhi Pamungkas Gautama (Universitas Pendidikan Indonesia)
Discussant	Claudio Morana (Università di Milano Bicocca)	Elvis Jarnecic (University of Sydney)	William L. Megginson (University of Oklahoma)	Maya Indriastuti (Sultan Agung Islamic University)	Uun Sunarsih (STEI)
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Discussant	Romora Edward Sitorus (Universitas Siswa Bangsa Internasional)	Jos van Bommel (University of Luxembourg)	Graham Partington (University of Sydney)	Putu Agus Ardiana (Udayana University)	Suzy Noviyanti (Universitas Kristen Satya Wacana)
	"Stock prices informativeness, financial crisis and liquidity commonality: Evidence from Asian stock markets" Wahyoe Soedarmono (Universitas Siswa Bangsa Internasional) Romora Edward Sitorus (Universitas Siswa Bangsa Internasional) Robert Joliet (Université Catholique de Lille)	"Estimating the Proportion of Informed Trade in Call Auctions" Jos Van Bommel (University of Luxembourg)		"Arbitrage profit potential in stock option trading: case of Australia" Putu Agus Ardiana (Udayana University)	
Discussant	Juliana Malagon (Durham University)	Adrian Lee (University of Technology Sydney)		Luluk Muhimatul Ifada (Sultan Agung Islamic University)	

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Day 1, 15.30-17.30

Room	BALE KUTA	BALE PASEBAN III	BALE PASEBAN IV	BALE PESAMUAN	BALE BANJAR (INDONESIA LANGUAGE SESSION)
Session chair	Adrian Lee (University of Technology Sydney)	Clas Wihlborg (Chapman University)	Nicholas Apergis (Curtin University)	Jhonni Sinaga (Universitas Mulawarman)	Siti Puryandani (Universitas Diponegoro)
	"Does Diversification Really Reduce Risk?" Thomas Kim (University of California Riverside)	"The Case for incomplete Markets" Lawrence E. Blume (Cornell University) Timothy Cogley (New York University) David A. Easley (Cornell University) Thomas J. Sargent (New York University) Viktor Tsyrennikov (Cornell University)	"The Government as a Large Shareholder: Impact on the Voting Premium" Marcelo Fernandes (Queen Mary University of London) Walter Novaes (PUC-Rio)	"The effect of fundamental factor on dividend policy on firms listed in Indonesia stock exchange" Gatot Nazir Ahmad (State University of Jakarta) Vina Kusuma Wardani (State University of Jakarta)	"Reaksi pasar modal Indonesia terkait pengumuman saham bonus oleh emiten sebagai sebuah sinyal" Tarsisius Renald Suganda (Universitas Ma Chung) Lydia Angela Natasya (Universitas Ma Chung)
Discussant	-	Sean Foley (University of Sydney)	Wayne W. Yu (Hong Kong Polytechnic University)	Dista Amalia Arifah (Sultan Agung Islamic University)	Robiyanto (Universitas Diponegoro)
		"Should we be afraid of the dark? Dark trading and market quality" Sean Foley (University of Sydney) Tālis J. Putniņš (University of Technology Sydney)	"Insider Ownership and Analyst Forecast Properties" Jacqueline W. Wang (Hong Kong Polytechnic University) Wayne W. Yu (Hong Kong Polytechnic University)	"The influence of company characteristics and auditor reputation toward the acceptance of going concern audit opinion" Dista Amalia Arifah (Sultan Agung Islamic University) Septi Dewi Wijayanti (Sultan Agung Islamic University)	"Integrasi pasar modal dan contagion effect pada beberapa negara di kawasan ASEAN" Robiyanto (Universitas Diponegoro)
Discussant	-	David A. Easley (Cornell University)	Elisabeth Megally (University of Zurich)	Gatot Nazir Ahmad (State University of Jakarta)	Tarsisius Renald Suganda (Universitas Ma Chung)
	"Financial access and small business performance: evidence from Malaysia" M. Mohd Rosli (Universiti Malaysia Kelantan) Wee Yu Ghee (Universiti Malaysia Kelantan) Ridhuwan Abdullah (Universiti Malaysia Kelantan) Syamsuriana Sidek (Universiti Malaysia Kelantan)	"Time and Pro-rata Matching: Evidence of a change in LIFFE STIR Futures" Angelo Aspris (University of Sydney) Sean Foley (University of Sydney) Peter O'Neill (University of New South Wales) Drew Harris (University of New South Wales)	"Managerial utility-adjusted asset risk - and debt-taking incentives" Elisabeth Megally (University of Zurich)	"Model Poverty Alleviation Through Qardhul Hasan" Abdul Hakim (Sultan Agung Islamic University)	"Pengaruh pengelolaan keuangan terhadap kinerja keuangan serta implikasinya pada peningkatan PAD pemkab Karawang" Sonny Hersona (Universitas Negeri Singaperbangsa Karawang)
Discussant	-	David Michayluk (University of Technology, Sydney)	Marcelo Fernandes (Queen Mary University of London)	Julisar (Bina Nusantara University)	-
	"A New Periodic Table of Asset Performance: The 7Twelve® Index" Craig L. Israelsen (Utah Valley University)	"Liquidity provision in limit order book markets" Tālis J. Putniņš (University of Technology, Sydney) David Michayluk (University of Technology, Sydney)	"Euro at Risk: The Impact of Member Countries' Credit Risk on the Stability of the Common Currency" Lamia Bekkour (University of Luxembourg) Xisong Jin (University of Luxembourg) Thorsten Lehnert (University of Luxembourg) Fanou Rasmouki (University of Luxembourg) Christian Wolff (University of Luxembourg)	"Erp implementation, adherence to cost, gcg implementation, operational performance as intervening variable to financial performance" Julisar (Bina Nusantara University)	
Discussant	-	Angelo Aspris (University of Sydney)	-	Abdul Hakim (Sultan Agung Islamic University)	

Day 2, 08.00-10.00

Room	BALE KUTA	BALE PASEBAN III	BALE PASEBAN IV	BALE PESAMUAN	BALE BANJAR
Session chair	Tanachote Boonvorachote (Kasetsart University)	Gilbert V. Nartea (Lincoln University)	David A. Easley (Cornell Unniversity)	Budi Frensidy (University of Indonesia)	
	"The global stock exchange and its influence towards the Indonesia stock exchange after the global financial crisis in 2008" Ibnu Khajar (Sultan Agung Islamic University)	"Spatial dependence in international bond markets" Hossein Asgharian (Lund University) Marcus Larsson (Handelsbanken) Lu Liu (Lund University)	"Dynamic Measures of Competition" Margaret Rui Zhu (City University of Hong Kong)	"Long term relationship (co-integration) among the asian's stock market and Jakarta composite indices (JCI)" Alvinatta Santoso (Tarumanagara University) I. Roni Setyawan (Tarumanagara University)	
Discussant	Jhonni Sinaga (Universitas Mulawarman)	Nicholas Apergis (Curtin University)	Toshio Serita (Aoyama Gakuin University)		
	"The determinants of the company value for Indonesia domestic oil palm plantations companies" Anis Rachma Utary (Universitas Mulawarman) Irwansyah (Universitas Mulawarman) Jhonni Sinaga (Universitas Mulawarman)	"Contagion across currency markets: New evidence from eight major currency markets and the recent financial crisis" Nicholas Apergis (Curtin University) Christina Christou (University of Piraeus) Anisha Cooray (University of Wollongong)	"Risk Management of Japanese Firms: A Survey research" Hideki Hanaeda (Chuo University) Toshio Serita (Aoyama Gakuin University)		
Discussant	Ibnu Khajar (Sultan Agung Islamic University)	Lu Liu (Lund University)	Margaret Rui Zhu (City University of Hong Kong)		
		"Corporate Transparency, Product Innovation, and Shareholder Value: Evidence from Korean Pharmaceutical Listings" Paul Moon Sub Choi (Ewha School of Business) Jongkuk Lee (Ewha School of Business) Joonho Richard Hwang (University of Cambridge) Hwansoong Lee (Michigan State University)	"The Demand for Warrants and Issuer Pricing Strategies" Rainer Baule (University of Hagen) Philip Blonski (University of Hagen)	"Does growth options affected in Indonesia stock exchange" Rio Dhani Laksana (Universitas Diponegoro)	
Discussant		Abdul Razak Abdul Hadi (Universiti Kuala Lumpur)	Shin S. Ikeda (National Graduate Institute for Policy Studies)	Benny Budiawan Tjandrasa (Maranatha Christian University)	
		"Examination of ASEAN Stock Market Efficiency with Variations in Crude Oil Price and Macroeconomic Variables in a Panel Data Analysis Approach" Abdul Razak Abdul Hadi (Universiti Kuala Lumpur) Eddy Yap Tat Hiung (Universiti Kuala Lumpur)	"A Contingent Claim Analysis of Suicide" Shin S. Ikeda (National Graduate Institute for Policy Studies)	"The influence of eps in three-factor pricing model" Benny Budiawan Tjandrasa (Maranatha Christian University)	
Discussant		Paul Moon Sub Choi (Ewha School of Business)	Philip Blonski (University of Hagen)	Rio Dhani Laksana (Universitas Diponegoro)	

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FINANCIAL ACCESS AND SMALL BUSINESS PERFORMANCE: EVIDENCE FROM MALAYSIA
M. Mohd Rosli, Wee Yu Ghee, Noraani Mustapha, Ridhuwan Abdullah, and Syamsuriana Sidek 61

JEL: G.11

THE INFLUENCE OF EPS TO THREE-FACTOR PRICING MODEL

Benny Budiawan Tjandrasa (benny.tjandrasa@gmail.com)
Lecturer at Maranatha Christian University, Indonesia

Abstract

Company's success in earning profit will raise the EPS and value of the firm. Increase in value of the firm will increase company's share price. Theoretically increase in EPS reflects management's success in rousing return will increase the company's share price. However a number of studies that discussed the EPS have different conclusions. There are a number of research findings that prove that the EPS variable has insignificant effect on market returns, while a number of other studies prove the EPS variable significantly influence the market return.

Allegedly these differences are influenced by stock market conditions at the time of the study, booms and busts conditions. This study adds a variable aMb (above minus below) EPS in the equation Fama-French Pricing Model and prove whether aMb variable has a significant effect.

The results reveal that independent variable aMb has a significant influence on expected excess return in Three-Factor Pricing Model in 'booms stock market' and has an insignificant influence on expected excess return in Three-Factor Pricing Model in 'booms and busts stock market'.

Keywords: CAPM, size capitalization, market risk premium, book-to-market ratio, earning per share.

1. Introduction

Introduced in 1960's by Sharpe, Lintner and Mossin, capital asset pricing model (CAPM) has been widely tested in various capital markets in various countries. In 1993 Fama and French developed a model which known as the Three-Factor Pricing Model (TFPM) or also known as the Fama-French Pricing Model (FFPM). Carhat in 1997 continued developed this model, which later introduced the Four-Factor Pricing Model (or also known as the Carhart Pricing Model) and Kubota and Takehara in 2010 developed the Five-Factor Pricing Model. They added new independent variables in the equation of the Three-Factor Pricing Model. This study adds a variable aMb (above minus below) EPS in the equation Fama-French Pricing Model and prove whether aMb variable has a significant effect. The reason to include variable aMb EPS is there are a number of research findings proved that the EPS variable has insignificant effect on market returns, while a number of other studies proved that EPS variables significantly influence market returns.

2. Theory and Hypothesis

The firm's earning per share (EPS) is generally of interest to present or prospective stockholders and management. EPS represents the number of dollars earned during the period on behalf of each outstanding share of common stock. (Gitman, 2012). Earning per share is calculated as follows:

$$\text{Earnings per share} = \frac{\text{Earnings available for common stockholders}}{\text{Number of shares of common stock outstanding}}$$

According to Kasmir (2008) earnings per share of common stock is a ratio to measure management's successful to achieve profit for the stockholders. The low ratio means management is unsuccessful; on the contrary the high ratio means the management is success to achieve it.

Company's success in earning profit will raise the EPS and value of the firm. Increase in value of the firm will increase company's share price. Theoretically increase in EPS reflects management's success in rousing return will increase the company's share price. However a number of studies that discussed the EPS have different conclusions.

Several studies which support the influence of EPS on stock prices are:

Researcher(s)	Year	Title	Result(s)	Source
Angrawit Kusumawardani	2012	Analisis Pengaruh Eps, Per, Roe, Fl, Der, Cr, Roa Pada Harga Saham Dan Dampaknya Terhadap Kinerja Perusahaan Lq45 Yang Terdaftar Di BEI Periode 2005-2009	The results of this study indicate that the variable EPS, PER, ROE, DER, ROA effect on stock prices and have an impact on firm performance.	Thesis, Universitas Gunadarma
Patriawan, Dwiatma & Sufian, Syuhada	2011	Analisis Pengaruh Earning Per Share (EPS), Return on Equity (ROE(, dan Debt to Equity Ratio (DER) Terhadap Harga Saham Pada Perusahaan Wholesale dan Retail Trade yang Terdaftar di Bursa Efek Indonesia (BEI) Tahun 2006-2008.	From this research, it could be concluded that stock price is influenced by Earning per Share	Undergraduate thesis, Universitas Diponegoro.
Widodo , Saniman	2007	Analisis Pengaruh Rasio Aktivitas, Rasio Profitabilitas, Dan Rasio Pasar, Terhadap Return Saham Syariah Dalam Kelompok Jakarta Islamic Index (Jii) Tahun 2003 – 2005.	TATO, ROA, ROE and EPS gives positive and significant influence towords the return of sharia stocks	Masters thesis, Program Pasca Sarjana Universitas Diponegoro.
Noer Sasongko & Nila Wulandari	2006	Pengaruh Eva Dan Rasio-Rasio Profitabilitas Terhadap Harga Saham	Result of test indicate that only EPS having an effect on to share price.	Jurnal Empirika
Pasaribu, Rowland Bismark Fernando	2008	Pengaruh Variabel Fundamental terhadap Harga Saham Perusahaan Go-public di Bursa Efek Indonesia periode 2003-2006	Earning per share was the dominant influence variable in six industries	Jurnal Ekonomi dan Bisnis , Vol. 2, No. 2 (July 2008): pp. 101-113.

Several studies that oppose the influence of EPS on stock prices are:

Researcher(s)	Year	Title	Result(s)	Source
Yeye Susilowati	2011	Reaksi Signal Rasio Profitabilitas Dan Rasio Solvabilitas Terhadap Return Saham Perusahaan	Earning per Share(EPS) , Net Profit Margin (NPM), Return on Asset (ROA) and Return on Equity don't have significance effect toward stock return.	Jurnal Dinamika Keuangan Dan Perbankan Vol 3, no.1 (2011)
Desy Arista & Astohar	2012	Analisis Faktor – Faktor Yang Mempengaruhi Return Saham	Earning per Share (EPS) has no significant effect on stock return manufacturing companies listed on the Indonesia Stock Exchange.	Jurnal Ilmu Manajemen dan Akuntansi 2012
Nathaniel Sd, Nicky	2008	Analisis Faktor-Faktor Yang Mempengaruhi Return Saham (Studi Pada Saham-saham Real Estate and Property di Bursa Efek Indonesia Periode 2004-2006).	Debt to Equity Ratio (DER), Earning per Share (EPS) and Net Profit Margin (NPM) has not significant influence to stock return.	Masters thesis, program Pascasarjana Universitas Diponegoro.

Allegedly these differences are influenced by stock market conditions at the time of the study, the booms and busts stock market conditions.

In this study, I add one independent variable to test the effect of EPS, it is aMb variable which stands for: above minus below average EPS.

To find whether aMb has a significant influence, I generate two hypothesis:\

Hypothesis 1:

Independent variable aMb has a significant influence on expected excess return in Three-Factor Pricing Model in 'booms stock market'.

Hypothesis 2:
Independent variable aMb has a significant influence on expected excess return in Three-Factor Pricing Model in 'booms and busts stock market'.

3. Data Collection Procedure

3.1. Data

As Tjandrasa (2013) previous research, the data is examined from:

- Indonesia Stock Exchange historical data from 2005-2011 period, which financial statement data for that period was taken from JKSE historical price-Yahoo! Finance.
- 3-month SBI rate (SBI: Sertifikat Bank Indonesia) from Bank Central Republik Indonesia's website, to determine risk-free rate return.
- Stock price times number of outstanding stock to get Market Equity (ME).
- Book to Market ratio is book equity divided by market equity. The final sample includes 140 data from 20 companies in 7 years' period.

3.2. Methodology

As Tjandrasa (2013), this research use panel data of the second semester LQ45's annual report from 2005 until 2011 and process it using Random Effect Model. Systematic sampling design is used for the sample data.

3.3. Construction of model

Three-Factor Pricing Model (TFPM) introduced by Fama and French in 1993 to predict the portfolio's abnormal return (Jogiyanto, 2010).
The equation can be written as follows:

$$rj,t\text{-}rf,t = \beta i^{M}(rM,t\text{-}rf,t) + \beta i^{SMB}SMBt + \beta i^{HML}HMLt + \varepsilon j,t \qquad (1)$$

Where:

- expected excess return on portfolios is represent by rj,t-rf,t

- market risk premium is represent by rM,t-rf,t
- size capitalization is represent by SMB
- book-to-market ratio is represent by HML

In this study, I add one independent variable to test the effect of EPS, it is aMb variable which stands for above minus below average EPS. The new equation is formed as follows:

$$rj,t\text{-}rf,t = \beta i^{M}(rM,t\text{-}rf,t) + \beta i^{SMB}SMBt + \beta i^{HML}HMLt + \beta i^{aMb}aMbt + \varepsilon j,t \qquad (2)$$

4. Results

Here is a modified Three-Factor Pricing Model with and without variable aMb in 'booms and busts on market conditions', which include all years from 2005 to 2011.

Booms and Busts Market

Regression Model	Intercept	Variables	Coefficient	Std. Error	t-Statistic	p-value	Sig
TFPM+aMb	-0.04335	RMRF	1.126971	0.23005	4.898811	0	***
		RSMB	0.471637	0.185884	2.537261	0.0139	**
		RHML	-0.017263	0.144766	-0.119249	0.9055	
		RaMb	0.097811	0.300044	0.325988	0.7456	
CAPM+SMB+aMb	-0.03682	RMRF	1.110443	0.181826	6.107159	0	***
		RSMB	0.470931	0.183986	2.559608	0.0131	**
		RaMb	0.097071	0.297067	0.326764	0.745	
CAPM+HML+aMb	-0.16587	RMRF	1.452495	0.200874	7.23087	0	***
		RHML	-0.005574	0.152211	-0.036619	0.9709	
		RaMb	0.370026	0.294767	1.255317	0.2143	
TFPM	-0.01136	RMRF	1.097485	0.20966	5.234586	0	***
		RSMB	0.493304	0.172067	2.866932	0.0057	***
		RHML	-0.016287	0.143461	-0.113529	0.91	

Notes:

*** p-value less than 0.01

** p-value less than 0.05

* p-value less than 0.10

From the modified Three-Factor Pricing Model ‘booms and busts in the market conditions’ by trying various combinations of variables such as the CAPM, SMB, HML, and aMb showed the following results:

a. Equation Three-Factor Pricing Model + aMb, consists of variable Rm-Rf, SMB, HML, and aMb, has two independent variables with a significant effect, the market risk premium (Rm-Rf), and capitalization size (SMB), while the variable book-to-market ratio (HML) and earnings per share (aMb) has insignificant effect on the expected excess return (Rj-Rf).
b. CAPM equation + SMB + aMb, consists of variable Rm-Rf, SMB, and aMb, also has only two independent variables with a significant effect the market risk premium (Rm-Rf), and capitalization size (SMB), while variable earnings per share (aMb) has insignificant effect on the expected excess return (Rj-Rf).
c. CAPM equation + HML + aMb, consists of variable Rm-Rf, HML, and aMb, has only one significant independent variable, the market risk premium (Rm-Rf), while the variable book-to-market ratio (HML) and earnings per share (aMb) has insignificant effect on the expected excess return (Rj-Rf).
d. Equation Three-Factor Pricing Model, consists of variable Rm-Rf, SMB, and HML, has two independent variables with a significant effect, the market risk premium (Rm-Rf), and capitalization size (SMB), while the book-to-variable market ratio (HML) has insignificant effect on the expected excess return (Rj-Rf).

Based on the above results it can be concluded that the market risk premium and size capitalization were significantly influence the expected excess return between 2005 and 2011 when the capital market experienced a period of ‘booms and busts’ (between that period, namely in 2008, there was a decline in the stock market due to declining global economic conditions). In this period variable earning per share (aMb) has insignificant effect on the expected excess return.

4.1. Booms Market

Here is a modified Three-Factor Pricing Model with and without variable aMb in ‘booms market conditions’. In this conditions the year 2008, when the world economy and capital markets experienced a downfall, not included.

Regression Model	Intercept	Variables	Coefficient	Std. Error	t-Statistic	p-value	Sig
TFPM+aMb	-0.03843	RMRF	1.144434	0.294032	3.892211	0.0003	***
		RSMB	0.48266	0.215428	2.240473	0.0296	**
		RHML	0.006085	0.298559	0.020382	0.9838	
		RaMb	0.061592	0.499664	0.123266	0.9024	
CAPM+SMB+aMb	-0.03992	RMRF	1.142049	0.266529	4.284889	0.0001	***
		RSMB	0.480439	0.183606	2.616687	0.0117	**
		RaMb	0.069115	0.332761	0.207701	0.8363	
CAPM+HML+aMb	-0.1943	RMRF	1.10572	0.307249	3.598778	0.0007	***
		RHML	-0.332296	0.269583	-1.23263	0.2235	
		RaMb	0.782987	0.399954	1.95769	0.0559	*
TFPM	-0.02629	RMRF	1.158673	0.267201	4.336329	0.0001	***
		RSMB	0.499772	0.162793	3.069995	0.0035	***
		RHML	0.033271	0.198867	0.167303	0.8678	

Notes:

*** p-value less than 0.01

** p-value less than 0.05

* p-value less than 0.10

From the modified Three-Factor Pricing Model on the market booms conditions by trying various combinations of variables such as the CAPM, SMB, HML, and aMb showed the following results:

a. Equation Three-Factor Pricing Model + aMb, consists of variable Rm-Rf, SMB, HML, and aMb, has only two independent variables with a significant effect, the market risk premium (Rm-Rf) and size capitalization (SMB), while the book-to-market ratio (HML) and earnings per share (aMb) has insignificant effect on the expected excess return (Rj-Rf).
b. CAPM equation + SMB + aMb, consists of variable Rm-Rf, SMB, and aMb also has only two independent variables with a significant effect, the market risk premium (Rm-Rf), and capitalization size (SMB), while variable earnings per share (aMb) has insignificant effect on the expected excess return (Rj-Rf).

c. CAPM equation + HML + aMb ,consists of variable Rm-Rf, HML, and aMb, has two independent variables with a significant effect, the market risk premium (Rm-Rf) and earnings per share (aMb), while the variable book-to-market ratio (HML) has insignificant effect on the expected excess return (Rj-Rf).

d. Equation Three-Factor Pricing Model, consists of variable Rm-Rf, SMB, and HML, has two independent variables with a significant effect, the market risk premium (Rm-Rf), and capitalization size (SMB), while the book-to-variable market ratio (HML) has insignificant effect on the expected excess return (Rj-Rf).

Based on the above results it can be concluded that the overall market risk premium and size capitalization significantly influence the expected excess return when capital market conditions in the period when the market booms in 2008 were excluded from the panel data because it is considered as an outlier. In particular, the variable earnings per share is represented by aMb variables also have a significant effect on the CAPM equation +HML + aMb.

5. Conclusions

From the discussion above it can be concluded:

1. Independent variable aMb has a significant influence on expected excess return in Three-Factor Pricing Model in 'booms stock market'. So hypothesis 1 can be accepted.
2. Independent variable aMb has an insignificant influence on expected excess return in Three-Factor Pricing Model in 'booms and busts stock market'. So hypothesis 2 cannot be accepted.
3. Market risk premium and size capitalization have a significant influence on expected excess return both in 'booms market' and 'booms and busts market' condition.

The EPS has an insignificant influence to the expected excess return presumably related to the fall of the stock prices in 2008. At the end of 2007 the EPS in various companies were in good level, but they fall along with the falling of the world stock prices index in 2008. Based on that situation, data from 2008 is considered as anomalies (outliers) and therefore excluded from the analysis.

6. Managerial Implications

To predict expected excess return portfolio managers can count on market risk premium and size capitalization to predict expected excess return both in booms market and booms and busts market condition.

However, earnings per share can be used primarily to predict the expected excess return of portfolio in the market booms condition. Using a regression model CAPM + HML + aMb, aMb independent variable representing the EPS has a p-value under 10% (or slightly above 5%) and had a coefficient of 0.782987 which means that a 1% increase in EPS has the effect of 0.78% for the increase in the expected excess return .

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