Proceedings
The Second International Conference On Finance
December 16 - 17, 2014
Grand Inna Kuta Hotel, Bali, Indonesia

Published by:
Department of Management
Faculty of Economics and Business
Diponegoro University
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 Charirie, PhD
Acting Dean,
Faculty of Economics and Business
Diponegoro University, Central Java, Indonesia
DEAN'S WELCOME

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Anis Charrie, PhD
Acting Dean,
Faculty of Economics and Business
Diponegoro University, Central Java, Indonesia
KEYNOTE SPEAKERS

Maureen O’Hara (Cornell University)
Marti Subrahmanyan (New York University)

ORGANIZERS

Indonesian Financial Management Association (IFMA)
Faculty of Economics and Business Diponegoro University

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Faculty of Economics and Business State University of Singaperbangsa Karawang

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Suryono Efendi (Nasional University)
Anna Triwiyatari (Ma Chung University)
Sonny Hersona (State University of Singaperbangsa Karawang)
<table>
<thead>
<tr>
<th>NAME</th>
<th>UNIVERSITY/INSTITUTION</th>
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<tbody>
<tr>
<td>Avanidhar Subrahmaniam</td>
<td>(UCLA)</td>
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<td>Bing Liang</td>
<td>(University of Massachusetts at Amherst)</td>
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<td>Christian Wolff</td>
<td>(University of Luxembourg)</td>
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<td>Darwin Choi</td>
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<td>Dennis Olson</td>
<td>(Thompson Rivers University)</td>
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<td>Douglas Foster</td>
<td>(University of Technology Sydney)</td>
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<td>Elvira Sojili</td>
<td>(Erasmus University)</td>
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<td>Endri Piliang</td>
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<td>Gatot Nazir</td>
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<td>Hong Zhang</td>
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<td>Ign. Roni Setyawan</td>
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<td>Imam Ghozali</td>
<td>(Diponegoro University)</td>
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<td>Indra Astrayuda</td>
<td>(Bank of Indonesia)</td>
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<td>Indrarini Laksmana</td>
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<td>(Sebelas Maret University)</td>
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<td>Irwan A. Ekaputra</td>
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<td>J. Henk von Eije</td>
<td>(University of Groningen)</td>
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<td>Jap Eferdi</td>
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<td>Jay Ritter</td>
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<td>Jerry Cao</td>
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<td>Johan Subhman</td>
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<td>Jongsuk Lee</td>
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<td>Lorne Switzer</td>
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<td>Luciana A. Spica</td>
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<td>Mahatma Kufepaksi</td>
<td>(University of Lampung)</td>
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<td>Mathijs A. van Dijk</td>
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<td>Neil Pearson</td>
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<td>Nurwati Ashikkin</td>
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<td>Pab Jotikashira</td>
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<td>Perminas Pangaran</td>
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<td>Qing Tong</td>
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<td>Ramabhadrnan Thirumalai</td>
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<td>Ravi Anshuman</td>
<td>(Indian Institute of Management Bangalore)</td>
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<td>Roena Aggarwal</td>
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<td>Sabri Boubaker</td>
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<td>Sugeng Wahyudi</td>
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<td>Sumit Agarwal</td>
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<td>Tarun Chordia</td>
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<td>Theo Vermeulen</td>
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<td>Thomas Chemmanur</td>
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<td>Utpal Bhattacharya</td>
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<td>William Megginson</td>
<td>(University of Oklahoma)</td>
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<td>Yupana Wiwattanakartang</td>
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<td>Monday, December 15</td>
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<td>08.30-10.30</td>
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<td>11.50-13.20</td>
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<td>Wednesday, December 17</td>
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<td>Wednesday, December 17</td>
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<td>Thursday, December 18</td>
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<td>Thursday, December 18</td>
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<td>Thursday, December 18</td>
<td>08.30-night</td>
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# PROGRAM SCHEDULE

## Day 1, 8:30 – 10:30

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<th>Room</th>
<th>BALI KUTA</th>
<th>BALI PASERIAN III</th>
<th>BALI PASERIAN IV</th>
<th>BALI PESANUAN</th>
<th>BALI BUNJAR (INDONESIA LANGUAGE SESSION)</th>
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<tbody>
<tr>
<td>Session Chair</td>
<td>Adrian Lee (University of Technology-Sydney)</td>
<td>Julian Maloney (Durham University)</td>
<td>Iowanthy (Universitas Malang)</td>
<td>Piti Agus Andika (Magelang University)</td>
<td>Surya Haryono (Universitas Negeri Surakarta)</td>
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<tr>
<td>Title</td>
<td>&quot;Differential Access to Price Information in Financial Markets: An Empirical Study of Indonesia's Stock Market&quot;</td>
<td>&quot;Information Processing Effect of Bond Rating Downgrades within the Treasury and among the Supply Chain: Evidence from CDS Market&quot;</td>
<td>&quot;How are Proceeds from Posted Equity&quot;</td>
<td>&quot;Optimal Hedge Ratio Estimation and Hedging Effectiveness: Case Study in Asia’s Community Futures Exchange&quot;</td>
<td>&quot;Gencatan langgar pengungkapan status bank syariah di alimah&quot;</td>
</tr>
<tr>
<td>Authors</td>
<td>David Gerskovitz, Marco Atkin, Mutia Tofan (Universitas Indonesia)</td>
<td>E. Haak Kim (University of Michigan), Feng-Fa Tu (University of Texas)</td>
<td>Jun-Hui Chang (National Chiao Tung University)</td>
<td>Tomoko Yamasaki (Kyushu University), Yi Liu (Tampere University)</td>
<td>&quot;Kepala Bank Syariah yang tidak mematuhi &quot;alimah&quot;&quot;</td>
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<tr>
<td>Discussant</td>
<td>Ana Jaramillo (Bath University)</td>
<td>Jeffrey S. Dahlin (University of Toronto)</td>
<td>Willian Maggs (University of Oklahoma)</td>
<td>Hajam Mariana (Depok University)</td>
<td>Mulyono (Trisnia University)</td>
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<tr>
<td>Title</td>
<td>Market quality and information liquidity supply: Insights into the Indonesian market maker behaviour&quot;</td>
<td>&quot;Short-Term and Long-Term Stock Price Correlation Risk&quot;</td>
<td>&quot;Price without purpose? Reputational differentiation, and pricing in a US equity underwriting&quot;</td>
<td>&quot;The Impact of the Domestic Internet Rate, Exchange Rate, World Oil Prices, World Gold Prices, DNI, Nikon, and INF in the NJT&quot;</td>
<td>&quot;ISYARAT LANGGAR PENGUNGKAPAN STATUS BANK SYARIAH&quot;</td>
</tr>
<tr>
<td>Authors</td>
<td>Azra Karim (Bath University)</td>
<td>Jeffrey L. Golde (University of Toronto), Xiaolin Peng (University of Michigan)</td>
<td>Chih-Hua Hsieh (University of Oklahoma), Vladimir A. Guryev (University of Central Florida)</td>
<td>Aniyo D. May (Wichita State University)</td>
<td>Budi Prayogo (Universitas Diponegoro)</td>
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<tr>
<td>Discussant</td>
<td>Terry Walker (University of Sydney)</td>
<td>Qiancong C. Mao (University of Memphis)</td>
<td>Hsing-Chung Lin (National Sun-Yat-Sen University)</td>
<td>Hajam Mariana (Depok University)</td>
<td>Siti Persyandhi (Universitas Diponegoro)</td>
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<tr>
<td>Title</td>
<td>&quot;The Flow of Inflation Information and the Pricing of Monetary TIPS&quot;</td>
<td>&quot;The Organization of a Risk Affiliation: A Theoretical Perspective on Risk and Efficiency&quot;</td>
<td>&quot;Supervision and pricin in residential real estate transactions&quot;</td>
<td>&quot;Is Indonesia Financial Institution Profitability An Empirical Evidence from Foshaa Microfinance in Central Java&quot;</td>
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<tr>
<td>Authors</td>
<td>Qingcong C. Mao (University of Memphis)</td>
<td>Peter J. Dittmar (University of Toronto)</td>
<td>Banks Wright (University of Sydney)</td>
<td>Muhammad Nofail (University of Tadashi University)</td>
<td>&quot;Is Indonesia Financial Institution Profitability An Empirical Evidence from Foshaa Microfinance in Central Java&quot;</td>
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<tr>
<td>Discussant</td>
<td>Chonghe Yu (National University of Singapore)</td>
<td>Gabriel V. Narke (Lincoln University)</td>
<td>Abdulrahman Abba (University of Saskatchewan)</td>
<td>Budi Prayogo (University of Indonesia)</td>
<td>&quot;Is Indonesia Financial Institution Profitability An Empirical Evidence from Foshaa Microfinance in Central Java&quot;</td>
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<tr>
<td>Title</td>
<td>&quot;Social Networks, Alliances, and the Informational Efficiency of Stock Prices&quot;</td>
<td>&quot;The Resurgence of a Warned Market: Evidence from the Chinese stock market&quot;</td>
<td>&quot;The Performance of an Unidentified Portfolio in Indonesia stock exchange&quot;</td>
<td>&quot;Baihui Fong (University of Executive University of Indonesia)&quot;</td>
<td>&quot;Is Indonesia Financial Institution Profitability An Empirical Evidence from Foshaa Microfinance in Central Java&quot;</td>
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<tr>
<td>Authors</td>
<td>Zhebin Chen (Nanyang Technological University)</td>
<td>Gabriel U. James (Lincoln University)</td>
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<td>Discussant</td>
<td>David Bailey (Cornell University)</td>
<td>Tricia Wu (University of Sydney)</td>
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<td>Session</td>
<td>Margareta Rizwan (City University of Hong Kong)</td>
<td>Li Liu (East University)</td>
<td>Xin S. Bein (National Graduate Institute for Policy Studies)</td>
<td>Craig L. Trench (Utah Valley University)</td>
<td>Moh. Nordin (Tadahiko University)</td>
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<tr>
<td>Discussant</td>
<td>Ole Wilms (University of Zurich)</td>
<td>Hiroshi Takahara (Waseda University)</td>
<td>Francine Wusum (ISEEI)</td>
<td>Ido Tsubik (Waseda University)</td>
<td>Hoti Purwanto Lestari (Universitas Pendidikan Indonesia)</td>
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<tr>
<td>Authors/Institutions</td>
<td>Walter Roth (University of Zurich)</td>
<td>Legal Radi (Chuo University)</td>
<td>Albert M. Mamani (Tilburg University)</td>
<td>Ida Priyadi (ISEEI)</td>
<td>Rani Gelgoli (ISEEI)</td>
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<td>Discussant</td>
<td>Claudio Moraes (University of Milano Bicocca)</td>
<td>Dietmar Frick (University of Sydney)</td>
<td>William L. Meggison (University of Oklahoma)</td>
<td>Maya Indra (Islamic University of Indonesia)</td>
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<tr>
<td>Authors/Institutions</td>
<td>Lisa Morales (University of California)</td>
<td>George Itoh (University of Sydney)</td>
<td>William L. Megginson (University of Oklahoma)</td>
<td>Laszlo Mandev (Islamic University)</td>
<td>Vika Agus (ISEEI)</td>
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<td>Discussant</td>
<td>Ramona Roberta (University of Luxembourg)</td>
<td>Joaquin Bonilla (University of Luxembourg)</td>
<td>Cali B. Moore (University College Dublin)</td>
<td>Thank You (ISEEI)</td>
<td>Dedy Nersayani (Universitas Kristen Satya Wawancara)</td>
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<td>Walter Stockmann (University of St. Andrews)</td>
<td>Yon Van Bonn (University of Luxembourg)</td>
<td>&quot;The Influence of Intellectual Capital on Strategic Performance&quot;</td>
<td>Laszlo Mandev (Islamic University)</td>
<td>&quot;Analysis of the Performance of Islamic Mutual Funds in Indonesia by Using Sharpe, Treynor, and Jensen: The Period 2016-2019&quot;</td>
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<td>Discussant</td>
<td>Akihiko Ueki (University of Technology Sydney)</td>
<td>Alan Lear (University of Technology Sydney)</td>
<td>Nita Multatulu (Islamic University)</td>
<td>&quot;Analysis of the Performance of Islamic Mutual Funds in Indonesia by Using Sharpe, Treynor, and Jensen: The Period 2016-2019&quot;</td>
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<td>Adrian Lee (University of Technology Sydney)</td>
<td>Dave Myhre (Kaplan University)</td>
<td>Neil B. Agarwal (Carnegie University)</td>
<td>Jumna Sinaga (Universitas Malang)</td>
<td>Edi Purwanto (Universitas Diponegoro)</td>
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<tr>
<td>Discussion</td>
<td>Sean Rady (University of Sydney)</td>
<td>Wayne W. Yu (Hong Kong Polytechnic University)</td>
<td>&quot;The Treaty of Amiens and Other Treaties&quot;</td>
<td>&quot;The effect of familial factors on dividend policy on firms listed in Indonesia stock exchange&quot;</td>
<td>&quot;Realit&quot;puluho cipu Indonesia terkait penggunaan sumber hortus olah rancang sebagaimana &quot;</td>
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<td>&quot;Should we be scared of the dark? Risk aversion and market crashes&quot;</td>
<td>&quot;Hurdle Ownership and Analyst Forecast Performance&quot;</td>
<td>&quot;The influence of company characteristics and auditor reputation toward the acceptance of going concern audit opinion&quot;</td>
<td>&quot;Tunggu pan&quot;puhro kucah etter ekspor pada berbagai negara di kawasan ASIAN &quot;</td>
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<td>&quot;Time and Frequency Matching: Evidence on evolving LEND (journal) Times&quot;</td>
<td>&quot;Management's self-interest and declining incentives&quot;</td>
<td>&quot;Modem Society An invited Evening Through &quot;</td>
<td>&quot;Tunggu pan&quot;puhro kucah etter ekspor pada berbagai negara di kawasan ASIAN &quot;</td>
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<td>David A. Enby (Carnegie University)</td>
<td>Elizabeth Megally (University of Zurich)</td>
<td>&quot;Managerial valuation-adopted asset risk and declining incentives&quot;</td>
<td>&quot;Abdul Hakim (Sultan Agung Islamic University)</td>
<td>Tavita Nias (Universitas Gadjah Mada)</td>
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<td>&quot;Money, Money, Money: Lessons from the world's financial crises&quot;</td>
<td>&quot;Professor Vincenzo &quot;</td>
<td>&quot;Profit on the&quot;</td>
<td>&quot;Tunggu pan&quot;puhro kucah etter ekspor pada berbagai negara di kawasan ASIAN &quot;</td>
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<td>Discussion</td>
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<td>Mavorite Gomes (Queens Mary University of London)</td>
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Grand Ifma Kuta Hotel, Bali, Indonesia
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THE INFLUENCE OF EPS TO THREE-FACTOR PRICING MODEL

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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 $a_{Mb}$ (above minus below) EPS in the equation Fama-French Pricing Model and prove whether $a_{Mb}$ variable has a significant effect. The reason to include variable $a_{Mb}$ 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:

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<th>Result(s)</th>
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<tr>
<td>Angrawit Kusumawardani</td>
<td>2012</td>
<td>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</td>
<td>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.</td>
<td>Thesis, Universitas Gunadarma</td>
</tr>
<tr>
<td>Patriawan, Dwiatma &amp; Sufian, Syuhada</td>
<td>2011</td>
<td>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.</td>
<td>From this research, it could be concluded that stock price is influenced by Earning per Share</td>
<td>Undergraduate thesis, Universitas Diponegoro.</td>
</tr>
<tr>
<td>Noer Sasongko &amp; Nila Wulandari</td>
<td>2006</td>
<td>Pengaruh EVA Dan Rasio-Rasio Profitabilitas Terhadap Harga Saham</td>
<td>Result of test indicate that only EPS having an effect on to share price.</td>
<td>Jurnal Empirika</td>
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Several studies that oppose the influence of EPS on stock prices are:

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

$$r_{j,t}-r_{f,t} = \beta_i^{M}(r_{M,t},t-r_{f,t}) + \beta_i^{SMB}SMB_t + \beta_i^{HML}HML_t + \epsilon_{j,t}$$

(1)

Where:
- expected excess return on portfolios is represent by $r_{j,t}-r_{f,t}$
- market risk premium is represented by $r_{M,t}-r_{f,t}$
- size capitalization is represented by SMB
- book-to-market ratio is represented by HML

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

$$r_{j,t}-r_{f,t} = \beta_i^{M}(r_{M,t}-r_{f,t}) + \beta_i^{SMB}SMB_t + \beta_i^{HML}HML_t + \beta_i^{a_{Mb}}a_{Mb}t + \epsilon_{j,t} \tag{2}$$
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**

<table>
<thead>
<tr>
<th>Regression Model</th>
<th>Intercept</th>
<th>Variables</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>p-value</th>
<th>Sig</th>
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<tbody>
<tr>
<td>TFPM+aMb</td>
<td>-0.04335</td>
<td>RMRF</td>
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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.
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<th>Regression Model</th>
<th>Intercept</th>
<th>Variables</th>
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<th>Std. Error</th>
<th>t-Statistic</th>
<th>p-Value</th>
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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.

References


L’Her, J.F., Masmoudi, T. & Suret, J.M. (2004). Evidence to support the four-factor pricing


