

Influence of Macroeconomics Factors, Profitability, and Stock Trading Volume on Stock Prices in The Years 2019-2021

Anisa Fitriani¹, Febryanti Simon²

^{1,2}Faculty of Management and Humanities, Pradita University, Indonesia

¹anisa.fitriani@student.pradita.ac.id, ²febryanti.simon@pradita.ac.id

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ABSTRACT

The Covid-19 pandemic, which struck Indonesia in March 2020, impacted various sectors, including the capital market. The capital market, which primarily served as a source of funding for investors, was also affected. This research was designed to examine the impact of economic elements on the share prices of manufacturing sectors amidst the Covid-19. The aspects under examination encompassed exchange rate, inflation, probability, and stock trading volume. This research employed data from all total of 171 manufacturing industry firms listed on the Indonesia Stock Exchange (IDX) over the period from 2019 to 2021. The research method used is a quantitative method. The purposive sampling technique used resulted in a sample of 59 (fifty-nine) companies that met the research criteria. The method of data analysis employed is panel data regression analysis, utilizing the Random Effect Model (REM) estimation, which is tested using Eviews 12. The findings indicate that profitability significantly influences stock prices, while exchange rate, inflation and stock trading volume do not have a significant effect on the stock prices of manufacturing companies during 2019-2021. Based on the simultaneous test result obtained, exchange rate, inflation, profitability, and stock trading volume have a significant effect on stock prices.

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Corresponding Author:

Anisa Fitriani
Faculty of Management and Humanities, Pradita University, Indonesia
Email: anisa.fitriani@student.pradita.ac.id

1. INTRODUCTION

The Covid-19 pandemic, which began in Wuhan, China, in December 2019, has had an impact on the economy. In this context, it is recorded that about 82.85% of businesses in Indonesia experienced a decrease in revenue during the pandemic [1]. This decrease in revenue occurred because many companies were forced to temporarily halt their business operations, and the decline in consumer demand also had an impact [2]. As a result, the Indonesian economy contracted by 2.07% in 2020 [3]. This contraction affected the Indonesian capital market, including stocks, bonds, mutual funds, and several derivative instruments that have economic and financial functions.

The capital market not only serves investors as a means of investment for investors over time but also can function as the main source of income for investors, especially those who invest in stocks. Stocks are a form of investment that indicates a person's capital ownership in a company or limited partnership [4]. Investors gain two types of benefits from owning stocks, namely capital gains and dividends. Capital gains are obtained by investors when there is an increase in the selling price of stocks above the purchase price, while dividends are a distribution of profits derived from the company's profit and are distributed after obtaining approval from shareholders in the general meeting of shareholders [5].

The larger the profit obtained by the company, the larger the dividend rate that will be given [6]. The Covid-19 pandemic has had a major impact on stock trading in the capital market. This is shown by the decline in the Composite Stock Price Index (IHSG) in all sectors. Although stocks promise quite large returns, under conditions like this, stick investment can be riskier.

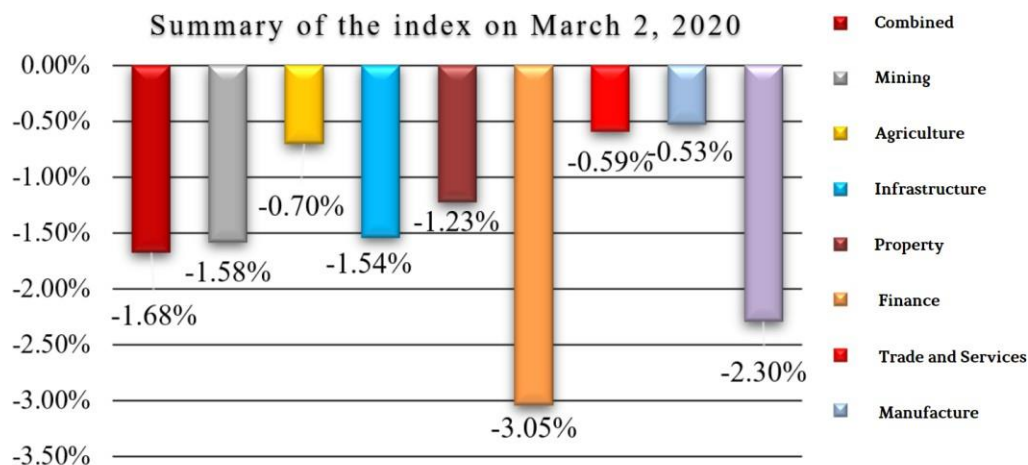


Figure 1. Summary of the Index on March 2, 2020.

Based on the above image, it can be seen that during the Covid-19 pandemic, there was a decline in all sectors. However, when viewed based on percentage, the manufacturing sector had the smallest decline. The Indonesia Stock Exchange (IDX) has several sectoral indices classified as JASICA (Jakarta Stock Industrial Classification). One of the sectors included in this classification is the manufacturing industry, which focuses on processing raw materials into semi-finished products with higher added value. The manufacturing sector played a significant role in Indonesia's economic expansion of 7.07% in the second quarter of 2021, achieving a growth rate of 6.91% despite the challenges posed by the Covid-19 [7].

Before investing, investors must carefully analyze and evaluate the traded securities, where the information obtained is useful and important in making investment decisions [8] [7]. There are two stock analysis techniques, namely fundamental analysis and technical analysis. Fundamental analysis consists of three parts, namely company analysis, industry analysis, and economic analysis. Company analysis is usually done by evaluating financial performance using financial reports, industry analysis is based on industry trends derived from news or journals, while economic analysis is done by considering macroeconomic factors such as exchange rates, interest rates, and inflation. Technical analysis is a method that utilizes market data to analyze past stock movements used to estimate future stock prices [9].

Stock prices are created through the process of supply and demand in the capital market [10]. When the demand for stocks is higher than the supply, it implies that stock prices are expected to rise. The measurement used in this research is the closing price. Several indicators that influence the stock prices of the manufacturing industry are exchange rate, inflation, profitability, and stock trading volume. The exchange rate is the amount of domestic money needed to buy one unit of foreign currency in a country [11]. The exchange rate is very important for companies that actively trade exports and imports. When the domestic exchange rate strengthens, companies that import raw material will benefit because import costs become cheaper. High company profits can increase the potential dividends given, which will ultimately affect stock demand in the capital market. When there is an excess demand exceeding the amount of supply, then stock prices tend to rise.

Another macroeconomic indicator that can affect stock prices is inflation. From 2019 to 2021, the inflation rate in Indonesia decreased, where it was 2.72% in 2019, then 1.68% in 2020, and increased to 1.87% in 2021 [12]. There are two types of inflation, namely cost push inflation and demand-pull inflation [9]. Cost push inflation occurs due to an increase in production costs, while demand pull inflation occurs due to an excess demand for available goods. When a company raises product prices and profits increase due to inflation, the company has the potential to provide larger dividends to investors and potentially increase stock demand, which will ultimately result in an increase in stock prices.

The main goal of a company is to increase its value, which can be measured by profitability [9]. Profitability reflects how effective management is in generating profits from sales and investments [13].

In this research, profitability is measured using Return on Assets (ROA). ROA is calculated by comparing the net profit of the company with the total value of the company's assets in the same period. The higher ROA, it indicates that there is an increase in sales and management efficiency in managing assets and maximizing earnings from company investments which can increase the attractiveness of stocks for investors [14].

Stock trading volume is another indicator used by investors before buying a company's stock. An increase in stock trading volume can indicate increased buying and selling activity on the IDX and reflect the balance between supply and demand for stocks resulting from investor behavior. When the volume of demand for a stock exceeds the volume of supply, this will lead to a rise in the company's stock value [15].

2. THE COMPREHENSIVE THEORETICAL BASIS

1. Capital Market Theory

The capital market provides an opportunity for companies to obtain funds from investors, which can be used for various purposes, such as business development, expansion, and working capital addition [16]. This theory explains that stock prices are formed by the interaction between demand and supply in the capital market. Macroeconomic factors such as exchange rates and inflation can affect demand and supply in the capital market, thus affecting a company's stock price. This is due to the fact that the data accessible in the capital market can sway an investor's choices in making sound investments decision. When the domestic exchange rate depreciates, companies that are accustomed to importing raw materials will suffer losses because import costs tend to be more expensive. This has the potential to reduce company revenue and the potential dividends to be distributed to investors. In addition, internal company factors, such as profitability and stock trading volume, can also affect stock prices. When a company's profitability increases continuously, investors tend to be interested in buying the company's shares. With the presence of the capital market, investors can choose a variety of investments to get the most optimal profits [17].

2. Signalling Theory

According to Brigham and Houston, this theory explains how companies provide signals to financial report users in the form of information about the company management's view of the company's prospects [13]. If the company provides accurate, relevant, and timely information, it will assist investors in making investment decision. When information is announced, investors usually analyze it first to determine whether it is a good or bad signal [13]. If the information is a positive signal, like the company witnessing an increase in profits, it signals to investors that the company has good prospects and performance, and has the potential to provide larger dividends to investors. This tends to increase stock demand and potentially raise stock prices. Signal theory can explain how macroeconomic changes can affect investors' perceptions of the company's financial condition and performance, which will ultimately affect the stock price. For example, when there are changes in exchange rates and inflation, if the company can signal that they can overcome the negative impacts of economic changes and still have good performance, this can increase investors' confidence and potentially increase the company's stock demand and price.

3. Stock Prices

The price of a stock is established based on the dynamics of supply and demand within a specific market framework, representing the value at which one investor sells to another [18]. The stock prices that occur in the capital market tend to fluctuate over time. These fluctuations are driven by the forces of supply and demand. If the amount of supply, then the stock price tends to rise.

4. Exchange Rate

According to Darmidji and Fakhruddin, the exchange rate is defined as the price of foreign currency traded with domestic currency and this price has a relationship with the demand and supply of currency [8]. The exchange rate is one of the important instruments in the economy of a country that adopts an open economic system, where several countries are involved in export and import activities to trade their production results.

5. Inflation

Inflation is a general increase in prices in an economy from one period to another, which can affect a company's revenue and profit [12]. One condition that can lead to increased revenue is when there is excess demand for available goods, companies usually tend to increase the selling price of products, so the company's revenue tends to increase and the potential dividends to be given to investors become larger. The size of the dividends to be given tends to attract investors to invest, which can result in an increase in demand and stock prices.

6. Profitability

Profitability refers to a company's capacity to yield earnings over a one year period, expressed in the ratio of operating profit to sales from the end of year profit and loss report data [19]. In this research, the profitability ratio is assessed using Return on Assets (ROA). The higher of the ROA, the more it indicates that the company is able to use its assets effectively and efficiently in generating profits from sales and investments. ROA is used to measure how much net profit will be generated from each unit of funds invested into total assets [14].

7. Stock Trading Volume

The volume of stock trading reflects the number of stock offers and stock demand in the capital market [10]. If a stock is traded a lot by investors, it can be concluded that the stock is of interest to investors, making the volume of stock trading active [20]. Trading volume is influenced not only by the frequency of trading but also by the value of the transaction

2.2 Hypotheses

1. Effect of Exchange Rates on Stock Prices

According to the research by Pradita and Fidyah as well as Saputra, it is asserted that the exchange rate adversely impacts stock prices [21] [22]. When the rupiah exchange rate depreciates, the company's burden tends to increase which ultimately leads to a decrease in the company's profit. The decrease in profit is a bad signal, because it has the potential to reduce the amount of dividends to be distributed by the company. This condition will encourage investors to sell the stocks they own. If the supply of stocks in the capital market is higher than the demand, this will lead to a decline in the company's stock value. Based on the description above, the hypothesis regarding the exchange rate on stock prices is as follows:

H1: The exchange rate has a significant effect on stock prices.

2. Effect of Inflation on Stock Prices

Inflation is another macroeconomic variable that can affect stock prices. Indicates that there is no substantial positive correlation between inflation and stock prices [23]. This condition occurs when inflation causes the company's production costs to be higher compared to the product price, then the company's profit will tend to decrease. Based on the description above, the hypothesis regarding the effect of inflation on stock prices is as follows:

H2: Inflation has a significant effect on stock prices.

3. Effect of Profitability on Stock Prices

Profitability is an indicator for investors in making investments decisions. Tahir et al. research findings indicate that ROA, when considered independently, have a positive and significant impact on stock prices. The higher the ROA, the greater the profitability obtained by the company. High profitability can attract investors to buy the company's shares, which ultimately has the potential to increase stock prices [25]. Based on the description above, the hypothesis regarding the effect of profitability on stock prices is as follows:

H3: Profitability has a significant effect on stock prices.

4. Effect of Stock Trading Volume

The volume of stock trading is an indicator that can influence stock prices, this is because the volume of stock trading reflects the activity and interest of investors in trading stocks. Based on the research result of Estuti and Hendrayanti, it indicates that the trading volume stocks exerts has a significant and positive influence [20]. This indicates that the volume of stock trading has important information for investors in helping to make investment decisions. Based on the description above, the hypothesis regarding the effect of stock trading volume on stock prices is as follows:

H4: The volume of stock trading has a significant effect on stock prices.

3. RESEARCH METHODS

In this research, a quantitative methodology is employed due to the numerical nature of the data collected. This data will be analyzed using Eviews 12 software to obtain the result of the hypothesis testing that has been formulated. The population is made up of objects or subjects that possess particular attributes and traits, as identified by the researcher for reference purposes. This research method employed in this study utilizes a nonprobability sampling technique through the use of purposive sampling.

The research samples consists of manufacturing companies that have been registered on the IDX consecutively during the period 2019-2021, manufacturing companies that have published audited financial reports during the period 2019-2021, manufacturing firms that remained profitable throughout the 2019-2021, companies that carried out import activities during the period 2019-2021, and manufacturing companies whose financial reports use the rupiah currency. The purposive sampling technique used resulted in a sample of 59 (fifty- nine) companies that met the research criteria. The research utilizes secondary data as its source of information. The secondary data taken in this research consists of data derived from company financial reports, inflation and exchange rate from Bank Indonesia, as well as stock price and trading volume data from IDX. The method of data analysis employed is panel data regression analysis, utilizing the Random Effect Model (REM) estimation, which is tested using Eviews 12. This research aims to determine the effect of exchange rates, inflation, profitability and stock trading volume on the stock prices of manufacturing companies on the IDX for period 2019-2021.

1. Operational Definition and Variable Measurement

In this research, the dependent variable used is the stock price (y). The stock price used in this research refers to the annual stock price at the time of closing price per December 31 during the period 2019-2021. In this research, the independent variables used are the exchange rate (x1), inflation (x2), profitability (x3), and stock trading volume (x4). The operational definition and measurement of the variable can be described in the table as follows:

Table 1. Operational Definition and Measurement of the Variable

Variable	Definition	Indicator
Stock Price (Y)	The price of a stock is established based on the dynamics of supply and demand within a specific market framework, representing the value at which one investor sells to Another [18].	The stock price is measured using the closing price [9].
Exchange Rate (X1)	The exchange rate indicates the price or value of a country's currency expressed in the currency of another country [11].	The middle rate can be measured by using[9]: Middle rate: $\frac{\text{Buying rate} + \text{Selling rate}}{2}$
Inflation (X2)	Inflation is a general increase in prices in an economy from one period to another, which can affect a company's revenue and profit [12].	Inflation can be measured using [9]: $\text{Inflation} = \frac{\text{IHK}_n - \text{IHK}_{(n-1)}}{\text{IHK}_{(n-1)}} \times 100\%$
Profitability (X3)	Profitability refers to a company's capacity to yield earnings over a one-year period, expressed in the ratio of operating profit to sales from the end of year profit and loss report data [19].	Profitability can be measured using: $\text{ROA} = \frac{\text{Profit after tax expense}}{\text{Total Asset}}$
Stock Trading Volume (X4)	The volume of stock trading reflects the number of stock demand in the capital market [10].	The volume of stock trading is measured using the total volume of stock trading in one period obtained from the IDX site at https://www.idx.co.id/ [15].

3.1 Research Approach

1. Descriptive Statistics

Descriptive statistics provide an overview of the total data, average value, maximum value, minimum value, and standard deviation of the variables stock price (y), exchange rate (x1), inflation (x2), profitability (x3), and stock trading volume (x4). The purposive sampling technique used resulted in a sample of 59 (fifty-nine) companies that met the research criteria. Additionally, there are 177 financial reports for the period 2019-2021.

Table 2. The Sequence Represents the Results of the Descriptive Statistical Analysis

	Y	X1	X2	X3	X4
Mean	3403.508	14091.67	0.020900	0.085604	1543236.
Median	1250.000	14105.00	0.018700	0.066100	235389.0
Maximum	53000.00	14269.00	0.027200	0.557900	16311844
Minimum	55.00000	13901.00	0.016800	0.000500	3.000000
Std. Dev.	6819.310	150.9580	0.004535	0.087158	2854624.
Skewness	4.698629	-0.132168	0.614629	2.599163	2.570326
Kurtosis	28.91866	1.500000	1.500000	11.95944	9.724705
Jarque-Bera	5605.629	17.10907	27.73794	791.2946	528.4037
Probability	0.000000	0.000193	0.000001	0.000000	0.000000
Sum	602421.0	2494225.	3.699300	15.15190	2.73E+08
Sum Sq. Dev.	8.18E+09	4010741.	0.003619	1.336990	1.43E+15
Observations	177	177	177	177	177

3.2 Panel Data Regression Estimation Model

After evaluating the outcomes of the panel data regression model estimations, the research will choose the most suitable regression model for further analysis. The model selection process involves several tests, namely:

1. Test Chow

The Chow test is performed to ascertain whether the common effect or the fixed effect model is superior. The results of the chow test are as follows:

Table 3. Test Cross-Section Fixed Effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	11.041826	(58,114)	0.0000
Cross-section Chi-square	334.487277	58	0.0000

Based on the Chow test results, it is shown that the probability value of the cross section chi square is smaller than the significance level, that is, $0.0000 < 0.05$. Therefore, we can infer that the null hypothesis is dismissed and the alternative hypothesis is upheld, suggesting that the Fixed Effect Model (FEM) is the suitable regression model for this research. Subsequently, to choose the best model between FEM and Random Effect Model (REM), the Hausman test will be conducted.

2. Test Hausman

The Hausman test is employed to determine the better model between the random effect and fixed effect models. The outcomes of the Hausman test are as follows:

Table 4. Test Cross-Section Random Effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.000000	4	1.0000

Based on the Hausman test, it is shown that the probability value of the cross section random is greater than the significance level, that is, $1.000 > 0.05$. Hence, we accept the null hypothesis and reject the alternative hypothesis, this suggests that the Random Effect Model (REM) is the most suitable regression model for this research.

Subsequently, to determine the superior model between the Common Effect Model (CEM) and REM, the Langrange Multiplier test will be conducted.

3. Test Langrange Multiplier

The Langrange Multiplier test is performed to decide the better model between the random effect and fixed effect models. The outcomes of the Langrange Multiplier test are follows:

Table 5. Test Hypothesis

	Cross-section	Time	Both
Breusch-Pagan	102.7235	1.525862	104.2494
	(0.0000)	(0.2167)	(0.0000)
Honda	10.13526	-1.235258	6.293253
	(0.0000)	(0.8916)	(0.0000)
King-Wu	10.13526	-1.235258	0.635941
	(0.0000)	(0.8916)	(0.2624)
Standardized Honda	10.24571	-2.21E-06	2.362056
	(0.0000)	(0.5000)	(0.0091)
Standardized King-Wu	10.24571	-2.21E-06	-3.052230
	(0.0000)	(0.5000)	(0.9989)
Gourieroux, et al.			102.7235
			(0.0000)

Based on the results of the Langrange Multiplier test, it is shown that the cross section value is smaller than the significance level, that is, $0.000 < 0.05$. Therefore, the null hypothesis (H_0) is rejected and the alternative hypothesis (H_a) is accepted. This suggests that the Random Effect Model (REM) is the most suitable and optimal regression model for this research.

4. Panel Data Regression Test Result

The regression test employed in this study utilizes the Random Effects Model (REM) as the regression estimation model. The obtained results from the REM regression test are outlined below.

Table 6. REM Regression Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	30622.82	38925.84	0.786696	0.4325
X1	-1.987735	2.658710	-0.747632	0.4557
X2	-2116.256	88469.50	-0.023921	0.9809
X3	15696.06	5043.690	3.112020	0.0022
X4	-0.000329	0.000191	-1.728641	0.0857

Table 7. Effects Specific

	S.D.	Rho
Cross-section random	5804.499	0.7746
Idiosyncratic random	3131.385	0.2254

Table 8. Weighted Statistics

Root MSE	3091.351	R-squared	0.085324
Mean dependent var	1012.121	Adjusted R-squared	0.064053
S.D. dependent var	3241.492	S.E. of regression	3135.962
Sum squared resid	1.69E+09	F-statistic	4.011190
Durbin-Watson stat	1.348311	Prob (F-statistic)	0.003891

Based on the results of the REM test, it can be seen that the probability value or significant value of the profitability variable (x3) shows a number smaller than the significance value, that is, $0.0022 < 0.05$. This indicates that profitability has a significant effect on stock price. Several other variables such as exchange rate (x1), inflation (x2), stock trading volume (x4) show numbers greater than 0.05, so it can be concluded that in the REM model, the exchange rate, inflation, and stock trading volume variables do not significantly affect stock prices. In addition, the F statistic shows a probability value of 0.038, where this number is smaller than the significance value, so it can be said the collectively the independent variables significantly affect the dependent variable. The coefficient of determination (R^2) shows a number of 0.064 or 6.4%, implying that the rest of the 93.6% is affected by variables not included in this study.

5. DISCUSSION

1. Effect of Exchange Rates on Stock Prices

The t test result reveal that the probability value of the exchange rate (x_1) is 0.4557, which exceeds the significance level of 0.05. Therefore, we can deduce that the null hypothesis is upheld and the alternative hypothesis is dismissed. Thus, the exchange rate variable does not significantly affect stock prices. When the exchange rate appreciates, there is not a notable rise in stock prices. Another factor that can influence this condition is due to the occurrence of the Covid-19 event during the 2019-2021 period. During this period, investors tend to have a negative view of market conditions considering that Covid-19 has caused unstable economic conditions. This condition resulted in the exchange rate depreciating to 14.105 in 2020 and continuing to increase to 14.269 in 2021. The weakening of the exchange rate led to an increase in the burden that the company had to bear, which ultimately would result in a decrease in the company's profits. The decline in company profits is a bad signal, because it has the potential to reduce the amount of dividends that the company will distributed. This condition will encourage investors to sell the stocks they own. This contradicts the findings of the studies conducted by Pradita and Fidyah as well as Saputra, where it is stated that the exchange rate has a negative effect on stock price [21] [22].

2. Effect of Inflation on Stock Prices

The t test result indicate that the probability value for inflation (x_2) is 0.9809, which is greater than the significance level of 0.05. Therefore, we can deduce that the null hypothesis is upheld and the alternative hypothesis is dismissed. Thus, the inflation variable does not significantly affect stock prices. This condition could be influenced by the Covid-19 event that occurred during the 2019-2021 period. Although the demand for goods in the market tends to be high, this does not have an impact leading to an increase in stock prices. This is due to the Covid-19 pandemic, many companies have experienced a decrease in revenue as a result of an increase in company operational costs. With the decrease in company revenue, the potential dividends to be distributed by the company tend to be lower. This will encourage investors to sell the stocks they own. If the stock selling action continues, it will cause a decrease in stock prices. This contradicts the findings of the studies conducted by Karlinda dan Ramadhan, where there is no significant positive influence between inflation and stock prices [23].

3. Effect of Profitability on Stock Prices

The t test outcomes reveal that the probability value for profitability (x_3) is 0.0022, which is smaller than the significance level of 0.05. Therefore, we can infer that the null hypothesis is dismissed and the alternative hypothesis is upheld. Thus, the profitability variable significantly affects stock prices. Profitability indicates the level of company performance, the higher the profitability achieved by the company, the greater the retained earnings that the company will get. Retained earnings are one of the requirements for companies to distribute dividends. With high retained earnings, it can provide potential for the company to pay higher dividends to its investors. The high potential dividends to be distributed by the company tend to attract investor interest in investing. If investors who want to buy shares of a company exceed the number of shares available, this will lead to a rise in the value of stocks [24].

4. Effect of Stock Trading Volume

Based on the results of the t test, the probability value of stock trading volume (x_4) shows a figure of 0.0857, which is greater than the significance level of 0.05. Therefore, we can deduce that the null hypothesis is upheld and the alternative hypothesis is dismissed. Thus, the stock trading volume variable does not significantly affect stock prices. This condition could be influenced by the covid-19 that occurred during the 2019-2021 period. Although the stock trading volume in the market tends to be high, this does not have an impact leading to an increase in stock prices. Economic uncertainty has made investors reluctant to buy large amounts of shares. This is not in line with the research of Estuti and Hendrayanti, where high stock trading volume will provide a positive signal for investors and tend to attract investor interest to buy the company's shares, which in turn can cause an increase in stock prices [2].

5. CONCLUSION

Based on the findings from prior research, several key conclusions can be drawn:

1. Contrary to the initial hypothesis (H1), it is evident that fluctuations in the exchange rate do not exert a significant influence on stock prices, resulting in the rejection of the alternative hypothesis.
2. Similarly, the research indicates that variations in inflation rates do not have a substantial impact on stock prices, leading to the dismissal of the alternative hypothesis (H2).
3. In contrast, the study reveals an interesting correlation between probability and stock prices, providing support for the acceptance of hypothesis H3.
4. Conversely, the analysis demonstrates that stock trading volume does not play a significant role in influencing stock prices, leading to the rejection of the alternative hypothesis (H4).

In conclusion, this comprehensive examination suggests that while exchange rates and inflation may not be substantial determinants of stock prices, the probability factor does emerge as a significant influencer. However, stock trading volume does not exhibit a statistically significant relationship with stock prices based on the available evidence. These insights contribute to a nuanced understanding of the multifaceted dynamics that underlie stock market behavior.

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