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# Knowledge and Explanation of Capital Markets in General to Deepen the Insight of Economic Studies

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ABSTRACT

The Capital Market is a forum used to seek profits by Issuers and Investors. Basically, the issuer as the owner of the interest will offer to sell the sharess to be purchased by the investor as the owner of the funds. The main objective of the transactions is to obtain mutual benefits from parties who need capital for development and investors who will receive dividends from the profits generated. There are various kinds of options in the Capital Market that can be selected and then purchased according to the considerations andagreements reached.

Keywords: Capital Market, Investors, issuers, shares.

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## INTRODUCTION

In the course of economic development, there are many things become the basisfor consideration in increasing profits optimally. In the process of increasing economicdevelopment, there needs to be the involvement of several components to collaborate and establish relationships, in order to be able to create the goals that have been determined. In this case, the Capital Market appears as a forum for both parties who need to provide mutual support to make improvements to the economic path. The Capital Market has a large role in the economy of a country where the capital market has a dual function, those are an economic function and a financial function. The two parties who need each other are the party who has funds or can be called an Investor and the party who needs fundsis called an Issuer/*Emiten*.

The role of the Capital Market is as a liaison between the two parties whose ultimate goal is to obtain possible profits from the capital developed as a form of rewardor what is known as Return.[1] This knowledge about the Capital Market needs to be known and studied by theentire community, especially academics and practitioners who often come into contact with economic matters. Strengthening insight will become cognitive capital as a benchmark for considerations in economic studies and as a guide in Capital Market practice.

## METHODS

To support the optimal implementation of research activities, researchers used qualitative research methodology. Qualitative research method is a research method that emphasize human or social activities by providing a comprehensive picture so that they can provide scientific, relevant and detailed information.

The characters of qualitative are:

1. Scientific setting (naturistic inquiry),
2. The researcher is the key instrument,
3. Descriptive,
4. Emphasize on results,
5. The analysis is carried out inductively, and
6. Qualitative research by emphasizes meaning

The application of qualitative method in this research is by using Library Research, a data collection method by understanding and studying theories from various literacies related to research. There are four stages of library study in research, those are preparing the necessary equipment, preparing a working bibliography, organizing time and reading or recording research material. This data collection uses the method of searching for sources and constructing them from various sources such as books, journals and research that has already been done. Library materials obtained from various references are analyzed critically and deeply, so that ideas and concepts can beoptimally concluded.

## RESULTS AND DISCUSSION

### Discussion

**1. History of Capital Market**

History of capital markets global began in France in the 12th century. Inthe 13th century, trade in goods also began in Flanders and Bruges in Belgium. The development of buying and selling securities, both goods and securities, continues to increase in various European countries, including the Netherlands. The history of the Indonesian capital market began during the Dutch colonial ruleof the VOC. On December 14, 1912, the Indonesian capital market was officiallyestablished in Batavia under the name Vereniging voor de Effectenhandel (Securities Trading Association), but in 1918 due to economic turmoil due to World War I and II the Indonesian capital market was forced to close. The Indonesian capital market was started back in 1977 by President Suharto under the name Jakarta Stock Exchange. Eventually the Indonesian capital market developed, policies were updated, and the name was changed to "Indonesian Stock Exchange".

Initially, this exchange sold shares and bonds of Dutch companies/plantations operating in Indonesia, bonds issued by the government (state and regional governments), shares of American companies issued by the Dutch public administration, However, the domestic capital market situation worsened again due to the nationalization of foreign companies, the conflict between West Ireland and the Netherlands, and high inflation which reached 650% at the end of the Old Order government. This caused public confidence inthe capital market to plummet and the Jakarta Stock Exchange was automaticallyclosed again.

In the New Order, economic policy no longer dealt with conflicts with foreign capital. The government had become more open to foreign capital for sustainable economic development. [citation needed] There were several things that had been done, first with the Presidential Decree Number 52 of 1976 concerning the Establishment of the Capital Market, the Establishment of the Capital Market Development Agency, and the Establishment of the Capital Market Implementation Agency ( BAPEPAM). Secondly was by issuing Government Regulation Number 25 of 1976 concerning the appointment of PT Danalexa as the first BUMN to operate with capital participation from the Republic of Indonesia of IDR 50 billion. Thirdly, providing tax relief for issuersand buyers of shares or proof of share ownership.

The development of the capital market stopped between 1977 and 1987, even though the government provided bailouts to businesses that used stock exchange funds. The slow development of the capital market in this period was caused by several problems, including too strict procedures for issuing shares and bonds and limiting share price fluctuations. PT Semen Cibinong became the firstcompany listed on the JSE.[5]

**2. Definition of Capital Market**

The capital market is an activity related to public offerings and securities trading, public companies relates to the securities published, as well as institutions and professions related to these securities. The capital market offers investors a variety of options, including saving in banks, gold, insurance, and purchasing land and buildings, among other investment vehicles. The capital market acts as a link. The capital market acts as a link between investors and corporations and government institutions through trading long-term products such as bonds and shares. The function of sustainable capital markets (Bruce Lliyd, 1976) is to increase long-term capital flows efficiently and relate them to “market standards” that support overall real economic growth.

Law of Indonesian capital market is regulated by Law No. Article 8 of 1995 explaining the capital market as activities related to securities trading and public offerings between participants and issuers.Therefore, generally the capital market refers to the activity of carrying out buying and selling transactions of securities or securities between investors, issuers and other capital market players. Currently the location of the Indonesian Stock Exchange (BEI) is used as a capital market.[6]

3. **Capital Market Functions**

Generally, the function of Capital Market Are:
As a means of increasing company capital Lots of Companies can raise funds through selling shares on the capital market. These shares can be purchased by the public, other companies, institutions or the government.

a. As a means of equalizing income
   After a certain period of time, the shares purchased provides dividends (part of the company's profits) to the buyer (owner). Therefore, selling shares in the capital market can be seen as an effort to equalize income.
b. As a means of increasing production capacity
   Additional capital from the capital market increases company productivity.
c. As a tool to produce labor
   The existence of capital markets can facilitate the emergence and development of other industries which influence the creation of new jobs.
d. All dividends distributed to shareholders as a means of increasing state income is subject to tax by the state. Addition Revenue from this taxincreases state revenue.
e. As an indicator of a country's economy
   The increase in activity (density) and sales/purchases in the capital market shows that the business activities of various companies are running well, andvice versa.

**4. Benefits of Capital Market**

The Capital market has many benefits for the users, including:

a) For The issuers
   The capital market has some benefits for the users, including:
   1) Able to collect more funds
   2) Funds can be received as soon as after the primary market closes
   3) Manager can more freely manage funds and savings because there isno agreement

4) improving the company's image.
5) Issuers' dependence on banks is reduced

b) For the investors
1) Investment value increases along with economic growth. This increasewill be reflected in an increase in share prices resulting in capital gains
2) Those who own/keep shares will receive dividends and bond winnerswill receive a variable interest rate
3) Investing to many products at the same time, and can be reducing risk

c) For the government
1) One source of state revenue
2) Giving contribution to economic management
3) Attracting foreign investors into the country
4) Taking notes of instrument transactions in the capital market
5) One of the way for a country to sell securities to investors

**5. Capital Market Instruments**

Capital Market Instruments are tools used for transactions in the Capital Marketin the form of securities according to their function. The various instruments in the Capital Market are:

a. Shares (Stock)

The simple definition of shares is a certificate of ownership. Shares, in the form of paper that explains the ownership of a company. Buying shares means the same as buying the company. Shares purchases can be made in full or in part according to the agreement

Shares are divided into 2:

a. Ordinary shares (common Stock).
Ordinary Shares are a certificate of ownership in a company whichusually contains the investor's rights and obligations in managing the business.
b. Preferred Shares (Preferred Stock).
Preferred shares is a type of shares that gives the owner priority rights to obtain larger dividend payments compared to ordinary shares. This special right allows shares owners to receive dividendpayments earlier than ordinary shares.

The advantages for investors when buying shares are:

a. Dividend: it is the distribution of profits obtained from the Company's sales profits.
b. Capital Gains: it is the difference determined between the purchaseprice and the selling price. Where investors will get a profit if the sale of sharess is greater when compared to the purchase price.

The risks that will occur in shares are:

a. *Capital Loss*: it is the opposite of Capital Gain which the selling price for sharess is lower than the buying price.
b. Liquidation Risk: The Company is declared bankrupt, so Investorswill only get wealth from the assets owned by the Company by dividing according to their portions.[11]

b. Bond

Bonds are securities that contain a loan contract between the borrower and the company being lent to. In this type of capital market, investors will provide loans and will benefit from the interest charged to the company and the company is also required to make repayment within a predetermined time period.

c. Derivatives

These are securities derived from sharess and bonds which include:

a. Option, it’s a statement issued by the Company that has given the rightto the holder to buy or sell specified shares.
b. Right, it’s the right of holding shares offered by the issuer to the ownersof old shares.
c. Warrants, it’s a letter issued by the Company and offered in the formof a contract to buy shares at a predetermined price.
d. Mutual Funds, which is a forum used to collect funds from the publicto then invest in

the Stock Exchange.

d. Parties Involved in Capital Markets
   a. Issuer
      Issuer is a company that issues securities and then offer to investors on thestock exchange.
   b. Investor
      Investor is the owner of capital who will buy sharess.
   c. Supporting Institutions[14]
      Supporting Institutions are parties that are active in carrying out capitalmarket activities to create stability and smooth trading transactions.
e. Investment Strategy in the Capital Market
   To be able to get maximum results in the Capital Market, in-depth analysis is needed in determining the shares selected. The strategies that can be implemented are:
   a. Collecting several types of shares in one portfolio with the aim of makingit easier to avoid risks that arise.
   b. Make purchases on the primary market then sell.
   c. Buy to save if the investor believes the stock will have great prospectssomeday.
   d. Buy sleeping shares, shares that is less popular with investors, but it hasthe opportunity to be profitable.
   e. Move purchases and sales from one stock to another stock to look for thebest opportunities to determine profits.
   f. Mutual Funds, by looking for a place to distribute the investment. Thismethod is easier to do, especially for beginners.

## CONCLUSION

From the results of research using literature studies, it can be concluded that portfolio theory plays a very important role in risk management and investment decision making. The basic concepts of portfolio theory, such as asset diversification and risk measurement, provide a strong foundation for investors to achieve their financial goals with acceptable risk. Portfolio diversification is the key to reducing investment risk and creating added value for companies and investors.

In addition, portfolio theory provides systematic guidance in understanding the relationship between risk and return, as well as in selecting the optimal combination of assets. By applying the principles of portfolio theory, investors can make more informed and effective investment decisions. Thus, portfolio theory is not only a conceptual framework, but also provides practical direction for forming efficient portfolios, managing risk, and achieving financial goals more consistently.

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