

Bankruptcy Risk and Market Reaction to Capital Expenditure

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ABSTRACT

This study aims to examine whether the condition of the bankruptcy risk of a company will influence the market response to capital expenditure. The main hypothesis of this research is the positive market reaction to the level of capital expenditure issued will be different in companies with a high level of bankruptcy risk and companies with low bankruptcy risk. The study was conducted on 56 companies with large capitalization on the Indonesia Stock Exchange for the period 2018-2021. The results of hypothesis testing indicate that the market responds positively to capital expenditures and the company's bankruptcy risk conditions. In addition, it is proven that in companies that are at risk of bankruptcy, the market reacts positively to capital expenditures made by companies, while in companies that are not in a state of bankruptcy, the market does not respond to capital expenditures made by companies. The results of this study are expected to be used by market participants when they analyze the information on capital expenditures made by the company.

Keywords: Capital Expenditure, Bankruptcy Risk, Market Response