

## ABSTRACT

Michele Gonatha (00000014633)

### **“THE EFFECT OF FINANCIAL MARKET FRICTIONS TO THE FIRMS DIVERSIFICATION LEVEL IN INDONESIA”**

(xii + 53 pages; 9 tables; 2 figures; 6 appendix)

New interesting facts had rose within the last few decades. Diversification behaviour of firms are believed to increase parallel with the pattern of external market frictions. Firms with high level of diversification can alter the cost of tight financial market frictions by reallocation of capital internally between divisions. Several facts are argued and demonstrated in determining whether diversification creates higher value and benefit for firms during times of distress. Using the data provided by the Indonesian Stock Exchange (IDX) and the Indonesian Bond Pricing Agency (IBPA), it is verified that firms in Indonesia that are well-diversified are able to mitigate the shocks in the external market. This research is conducted under a time period of 10 years, from 2008 to 2017.

**Keywords: diversification, financial market, conglomerates, market friction, internal market**