Impact of Major Political Events on Stock Market Returns of Pakistan

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Abstract

The purpose of this study is to check the impact of various political events on Karachi stock exchange. For this purpose nine major political events were taken under study during the period of 2007 to 2012. These events were Emergency rule of Musharaf, Benazir Bhutto Assassination, 2008 General Elections of Pakistan, Resignation of Musharaf, Restoration of Chief Justice of Pakistan, Abbotabad Operation, Salala Attack, De-seating of Prime Minister and 2012 Elections of USA. For the purpose of this study, these events were divided into two categories one is those events that caused changed in government policy and the other is those events that did not caused change in government policy. "t" statistics was used to check the significance of every event. Results showed that only those events affected the returns of Karachi stock exchange that caused change in government policy where those events which did not cause change in government policy had no effects on returns of Karachi stock exchange. Moreover it was also seen that Karachi stock exchange readjust itself very quickly i.e. effect of any news did not last for more than two days.

Keywords: Political Instability, Stock Market Returns, Financial Market, Economic Growth

Introduction

Political events help us to derive future economic policies, predictions about the elections, new government structure and policies. There are many factors that affect the stock market performance but in this study the main focus is on political risks/uncertainty. Political risks often have remarkable effect on the performance of stock market and it is an area of concern for both international and domestic investors. In behavioral finance, the investor preference theory implies that higher returns have always cherished investors and investors need higher returns at lower risk level. The objective of this study is to examine the relationship between stock market returns and political events that took place in Pakistan during the period November 2007 – November 2011; this study will examine the instability in the stock market due to the political events.

A flourishing stock market is an indicator of prosperous economic conditions of any country. One of the major hurdles in prosperity of Pakistan is political risk in general and for stock market in particular. Pakistan is playing a front line role in the war against terror, which has affected its political image. From the last one decade, many major events took place which caused the political instability in Pakistan. Political instability discourages the investors and in turn affects the overall market performance.

In this study the focus is to examine that what kind of political risks are related to the Karachi Stock Exchange, moreover the relationship between various political events and daily stock returns during the specific periods, when the events occurred. The term Stock return is also known as Return on Investment (ROI), or the rate of profit which is earned on the amount invested, sometimes it is gain and sometimes loss. The stock market returns may show abnormal behavior due to occurrence of any event. All kind of information can influence the stock market activities including publically available information and off the market information.

Fama (1965) presented "Efficient Market Hypothesis", it states that, no one can achieve the excessive market returns constantly from given information available at that time in the market. So Fama presented three forms of Efficient Market Hypothesis.

- Weak Form of Market Efficiency
- Semi Strong Form of Market Efficiency
- Strong Form of Market Efficiency

The weak form of market efficiency emphasizes that future prices cannot be predicted from the past prices. No one can achieve the long run excess returns by using the past data. In semi strong form of market efficiency, the share prices quickly adjust the new publically available information, so that no one can get the excess returns by using that information. Furthermore, in Strong form of market efficiency all the information including public or private information reflects in the share prices so that no one can gain the excess returns.

Another factor that influences the stock market returns is political events it may be either positive or negative. This study inquires about the level of political risks associated with Pakistani Stock Market (Karachi Stock Exchange) and analyzes the relationship between various political events and daily stock returns during the period of November 2007 to November 2012 during which these events occurred. The semi strong form of market efficiency coincides with this study because whenever political events occurred, market absorbs its effect and reacts accordingly.

Nine political events have been taken in this study which are as follows; Emergency rule of Musharaf, Benazir Bhutto Assassination, 2008 General Elections of Pakistan, Resignation of Musharaf, Restoration of Chief Justice of Pakistan, Abbotabad Operation, Salala Attack, Deseating of Prime Minister and 2012 Elections of USA.

The objective of this study is to analyze that to what extent these political events have effected on market price of shares. The main focus of this study is to analyze scrutinize that whether all of these events have significant effects on share prices or not.

This research is useful for practitioners (marketers, intuitions and investors). They can get help regarding research purpose. They may expand this research by adding some more political factors or by expanding the time duration of the research sample. There is also a scope to study the impact of those events on Islamabad Stock Exchange or Lahore Stock Exchange. Investor can get the benefit from this study that how returns can be affected due to occurrence of political events, and after how long it will take to revive its situation.

Literature Review

Recently many researches that have been conducted to examine the political event may or may not have any influence on stock market prices. The most recent study was conducted by Suleman (2012) who examined the effect of various terrorist attacks on Karachi Stock Exchange. The attacks taken under study were terrorist attacks of 9/11 in the United States, suicide blasts at night clubs at Bali in 2002, the Madrid and London train bombings in 2004-2005 and a series of continuous blasts and suicide attacks in Pakistan. He concluded that these news have negative effect on returns of KSE and increase the volatility of KSE 100 index. These results are consistent with (Bilal, et al. 2012 & Suleman (2012). However, these news have no or very little impact on oil and gas sector.

Whereas, Aslam & Kong (2011) further elaborated the study and found that attacks on cities having stock markets have negative where attacks on Federally Administered Tribal Areas (FATA) have positive effect on KSE. Moreover attacks with gaps showed larger negative impacts as compared to frequent ones. Javed & Ahmed (1999) studied the impact of nuclear detonation on KSE. They concluded that nuclear detonation of India had adverse effects on returns of KSE while trading volume and the level of volatility increased, where nuclear detonations of Pakistan had no effect on KSE returns; however it resulted in an increase in volatility and trade volume.

Arzu (2011) studied the impact of political instability on the stock market trading volume and daily stock returns during the period from 2009 to 2011. She concluded that there is a negative correlation between trading volume and stock returns, due to the Attack on Sri lankan cricket team, Ashura attack, assassination of Governor Salman Taseer and Assassination of Minorities minister Shahbaz bhatti and positive correlation has been seen due to Restoration of C.J and Pakistan temporarily suspension of NATO supply. Whereas, the events have significantly affect the trading volume and stock returns of KSE 100-INDEX movement of Index depends on positivity and negativity of the event (Malik, Hussain & Ahmed, 2009; Khan and Ahmed, 2009; Khan, Javed, Ahmad, Mahreen and Shahzad, 2009 & Marwe and Smit, 1997).

Whereas, unfavorable political news has negative impact on market returns and market volatility (Kongprajya, 2010; Lin & Wang, 2005; Mei & Guo, 2002 & Lin & Wang, 2005) and favorable political news has positive impact on market returns and volatility (Kongprajya, 2010; Clark, Masood and Tunaru, 2008; Ali & Afzal, 2012 & Torkzade & Moghadam, 2012). Salameh & AlBash (2011) concluded that market is inefficient at semi strong level and the effect of events is gradually reflects on market returns. Some researcher found that the market is strongly associated with various political events those were taken under study.

In addition it was also found that firms with small foreign institutional ownerships show more significant price reaction as compared to the firm's large foreign institutional ownerships (Chen, Bin & Chen, 2005). Whereas, Zach (2003) examined that market are more volatile during the event dates as compared to normal days, whereas, merger announcement had no impact on market returns which implies that investors failed to gain any abnormal return by such announcements (Padmavathy & Ashok, 2012 & Gersdorff & Bacon, 2007).

The distinctive feature of the study is that all main political events are captured during the study period. There is no any study found in literature that took this kind of events and analyze the effect on stock return. There is an addition in literature for further research in this area of study.

Hypothesis

H_1: All political events have significant effect on stock market returns.
H_2: Political events that significantly affect Government policy have significant effect on stock market returns.

Methodology

This study analyses the effect of major political events on daily returns of Karachi Stock Exchange, to find out the significance of the relationship between KSE returns and political events occurring in the country. This Current study evaluates daily data relating to stocks prices, the required data is collected from Karachi Stock Exchange websites and Yahoo Finance. The study period is from November 2007 to November 2012. For the sake of our study, 9 political events are selected and data is collected for pre-event dates post-event dates and dates on which events occur.

Event study is an econometric technique which helps to study the impact of an event in a particular period or over several periods. For the purpose of analysis following steps of event study methodology will be followed.

(1) Identification of events and specification of estimation and post event window.

(2) Computation of abnormal returns by comparing expected and actual returns in the test period.

(3) To check significance of the event

Identification of events and specification of estimation and post event window

Firstly, important political events are taken into account which has taken place during the testing period. For this purpose we have chosen nine major political events during the period of November 2007 – November 2012. Depending on their nature, the events are classified in two categories. One is those which significantly affected Government policy and second are those which have no or very little effect on Government policy. Pre-event and post-event dates are specified for each event, for sudden events pre event window is only for the purpose of estimation and for events, which are expected such as budget or monitory policy pre event window is used for estimation as well as for calculating cumulative abnormal return. Following are the events along with their pre and post event dates.

Events that caused change in Government policy

		Window	
Event Name	**Event Date**	**Pre-event Period**	**Post-event Period**
Emergency Rule	5th November 2007	25th October 2007 – 2nd November 2007	4th November 2007- 15th November 2007
Banazir Bhutto Assassination	27th Dec 2007	13 December 2007 – 26th December 2007	31st December 2007 – 9th January 2008
Election 2008	19th February 2008	7th February 2008 – 15th February 2008	20th February 2008-28th February 2008
Restoration of CJ	16th March 2009	4th March 2008 – 13th March 2009	17th March 2009 – 26th Marchl 2009
Abbotabad Operation	2nd May 2011	21st April 2011 – 29th April 2011	3rd May 2011 – 11th May 2011

Events that did not cause change Government policy

		Window	
Event Name	**Event Date**	**Pre-event Period**	**Post-event Period**
Musharaf Resignation	18 August 2008	6st August 2008 – 15th August 2008	19th August 2008 – 27th August 2008
Salala Attack	28th November 2011	17st November 2011 – 25th November 2o11	29th November 2011 -9th December 2011
Deseating Of PM	19th June 2012	8th June 2011 – 18th June 2012	20th June 2012 – 28th June 2012
Elections in USA	7th November 2012	25th October 2012 – 6th November 2012	8th November 2012-19th November 2012

Computation of abnormal returns by comparing expected and actual returns in the test period

Normally CAPM ($R_i = R_f + B (R_m-R_f)$) is used as a parameter to estimate the expected returns in the event study. But in our case we will use running average method to calculate the expected returns and actual returns will be taken for the estimation of abnormal returns. Daily closing prices of KSE 100 Index for the dates respective to various events are taken under study and daily returns will be calculated by using the following formula

$R_t = \ln(P_t/P_{t-1})$

Where:

R_t = Return on day 't'

P_t = Index closing value on date 't'

P_{t-1} = Index closing value on date 't-1'

ln= Natural log.

Abnormal return will be calculated by using the following formula:

$AB_{it} = R_{it} − E (R_{it})$

Where:

AB_{it} = Abnormal return on day 't'

R_{it} = Actual return on date 't'

$E(R_{it})$ =Expected return on date 't'

For estimating the significance of the event "t-statistics" will be used. Value for "t-statistics" will enable us to determine the significance of a particular event which in-turn will provide us proof for accepting or rejecting the hypothesis made by us.

Results and Discussion

In order to check the significance of the events analysis are done in two parts in first part events are analyzed separately by using "t-statistics" and in second part "Cumulative Average Returns" technique is used employed separately for each class of event.

Table 1 (Emergency rule of Musharraf)

S.E			0.011879911
Date	ER	AR	T
5-Nov-07	0.000879335	-0.047620582	-4.008496352
6-Nov-07	0.000516425	0.01045587	0.880130306
7-Nov-07	0.000550834	0.004997531	0.420670744
8-Nov-07	0.00086945	-0.006596587	-0.555272396
12-Nov-07	0.000662753	0.016511993	1.389908784
13-Nov-07	0.000757971	-0.003401279	-0.286305043
14-Nov-07	0.000766789	-0.023385995	-1.96853281
15-Nov-07	0.000576977	-0.016063996	-1.352198289
16-Nov-07	0.000471122	-0.002680877	-0.225664695
19-Nov-07	0.000436662	0.011558066	0.972908448
20-Nov-07	0.000601442	0.005186966	0.436616513
21-Nov-07	0.000651509	0.013682001	1.151692161
22-Nov-07	0.000706833	0.001798727	0.15140915
23-Nov-07	0.000762698	0.013119805	1.10436889
26-Nov-07	0.000774349	0.002479845	0.208742725
27-Nov-07	0.000760708	0.000726903	0.061187586
28-Nov-07	0.000670061	0.005647341	0.475368917
29-Nov-07	0.000676963	0.0050968	0.429026781
30-Nov-07	0.000661973	0.001713955	0.144273366
3-Dec-07	0.000688711	-0.005912166	-0.497660779

Table 1 shows market statistics for the event of Emergency rule declared by Musharaf. Standard error value for the calculation of t-statistics was found to be 0.011879911 which was calculated by taking standard deviation of Pre-event returns. It is evident from table 1 that t-statistics for the first day after event is -4.008496352 which is significant, which shows that emergency rule declared by Musharaf had its impact on stock market. Moreover negative sign shows that market showed negative reaction towards this news. The second day after the event has shown insignificant value for t-statistics i.e. 0.880130306 which depicts that the market revived itself from the news of emergency rule imposition. And further results also showed insignificant relationship.

Table 2 (Assassination of Benazir)

S.E		0.012597983	
Date	ER	AR	T
31-Dec-07	0.000971549	-0.049156835	-3.90196089
2-Jan-08	0.000495291	-0.05327938	-4.229199367
3-Jan-08	7.8783E-05	0.046973983	3.728690864
4-Jan-08	0.000413028	0.018194333	1.444225908
7-Jan-08	0.000530051	-0.007298541	-0.579342076
8-Jan-08	0.000483592	0.010827291	0.85944645
9-Jan-08	0.000535128	-0.004519456	-0.358744441
10-Jan-08	0.000422862	-0.013437933	-1.066673385
11-Jan-08	0.000333834	-0.012336221	-0.979221946
14-Jan-08	0.000258139	0.009371923	0.743922506
15-Jan-08	0.000258744	0.000231538	0.018378959
16-Jan-08	0.000302482	-0.015367102	-1.219806611
17-Jan-08	0.000156614	-0.01261984	-1.001735017
18-Jan-08	7.01426E-05	0.014422596	1.144833806
21-Jan-08	0.000261947	-0.002030055	-0.161141246
22-Jan-08	0.000167451	-0.006725355	-0.533843819
23-Jan-08	0.000102142	0.00189956	0.150782853
24-Jan-08	6.36926E-05	-0.005000764	-0.396949605
25-Jan-08	-4.73908E-06	0.009954947	0.790201697
28-Jan-08	4.49881E-05	0.00171799	0.13637022
29-Jan-08	-2.6044E-05	0.009226566	0.73238437
30-Jan-08	0.000106513	-0.001487283	-0.118057209

Table 2 shows stock market behavior after the assassination of Benazir, after this event KSE started its operations after a gap of 3 days. Standard error for this event was 0.012597983 and method of calculating this value was same as for previous event. Table clearly depicts that KSE operation for two days after the assassination shows higher values for "t-statistics" i.e. -3.90196089 & -4.229199367 respectively which shows that market showed high degree of response to this event and negative sign depicts that market moved downward in response of this event. "t-statistics" for third day of operations of KSE after this event shows high positive value 3.728690864 showing the revival of market from the negative impact of this event. No other day after the event showed significance of relationship.

Table 3 (General Elections of 2008)

S.E		0.012276399	
Date	ER	AR	T
19-Feb-08	0.000376371	0.030062347	2.448791915
20-Feb-08	0.000570814	0.001604893	0.130729934
21-Feb-08	0.000592353	0.008953503	0.729326472
22-Feb-08	0.000815111	-0.000232857	-0.018967898
25-Feb-08	0.000864934	-0.003068866	-0.249980934
26-Feb-08	0.000770606	0.006467806	0.526848789
27-Feb-08	0.001055133	-0.003435712	-0.279863141
28-Feb-08	0.001138636	0.002797558	0.227880991
29-Feb-08	0.001331659	-0.01102121	-0.897755913
3-Mar-08	0.00123181	-0.009150966	-0.745411275
4-Mar-08	0.001217925	-0.006412102	-0.522311312
5-Mar-08	0.00118333	0.013509011	1.100404968
6-Mar-08	0.001302649	0.011151977	0.908407815
7-Mar-08	0.001686584	-0.006131469	-0.499451774
10-Mar-08	0.001599267	-0.012595834	-1.026020248
11-Mar-08	0.001723627	0.000381003	0.031035378
12-Mar-08	0.001706453	0.013349551	1.087415802
13-Mar-08	0.001888931	-0.008281831	-0.674614003
14-Mar-08	0.00178343	-0.000939327	-0.076514864

Table 3 shows stock market reaction after the results announcement of general elections 2008, results were against the king party and same was desired by the general public. Standard error for this event was 0.012276399 and again standard deviation technique was used to find this value. "t-statistics" of KSE returns for the first day after this event is 2.448791915 which shows that market showed great response to this very important political event and positive sign of this value shows the positive response of market towards this event. But the "t-statistics" values for second and third day after this event 0.130729934 & 0.729326472 respectively, are not significant which reveals that the effect of this positive news also lasted for a single day only, because other returns after the event showed similar results.

Table 4 Restoration of Chief Justice of Pakistan)

S.E		0.019688716	
Date	ER	AR	T
16-Mar-09	-0.004496475	0.057508672	2.920894947
17-Mar-09	-0.003989371	0.016280883	0.826914405
18-Mar-09	-0.003868303	0.024421196	1.240365066
19-Mar-09	-0.003673424	0.031219039	1.585630976
20-Mar-09	-0.003408562	-0.012339696	-0.626739506
24-Mar-09	-0.003563014	0.04626956	2.350054643
25-Mar-09	-0.003152374	0.011759626	0.597277416
26-Mar-09	-0.003069612	-0.006824549	-0.346622348
27-Mar-09	-0.003164748	0.035693436	1.812887888
30-Mar-09	-0.002851972	0.030037344	1.525612073
31-Mar-09	-0.002591108	-0.019738626	-1.002534915
1-Apr-09	-0.002808068	0.013202502	0.670561866
2-Apr-09	-0.002704813	0.039413627	2.00183832
3-Apr-09	-0.002350943	0.035421585	1.799080466
6-Apr-09	-0.002032957	0.013543396	0.687876011
7-Apr-09	-0.001922279	0.017356629	0.8815521
8-Apr-09	-0.001773872	-0.037704605	-1.915036211
9-Apr-09	-0.002153473	-0.003902729	-0.198221628
10-Apr-09	-0.002211705	0.045396811	2.305727311
13-Apr-09	-0.001796464	0.034662251	1.760513468

On 15th March 2009 Chief Justice of Pakistan was reinstated by an executive order passed by Prime minister of Pakistan. This decision brought end to the political instability which was due to the dispute of this matter. Table 4 shows statistical values for this event, again standard deviation methodology was used to calculate standard error value for this event which was found to be 0.019688716. "t-statistics" value for the KSE return of first day after this event was found to be 2.920894947 which shows that this event had its impact on KSE return and as this news had positive impact on the political scenario of Pakistan so the value of "t-statistics" is also positive showing positive response of the market towards this news. "t-statistics" value for the KSE returns of second, third, fourth and fifth day after the first day of this event is insignificant which shows that the impact of this news lasted only for a single day. But sixth day after this event "t-statistics" value for the KSE returns was found to be significant which might be due to the reason that market started its operations after a gap of three days and market would have showed abnormal returns.

Table 5 (Abbotabad operation)

S.E		0.009241563	
Date	ER	AR	T
2-May-11	0.001113031	-0.002910202	-0.314903683
3-May-11	0.000986323	-0.007571661	-0.819305265
4-May-11	0.000981735	-0.025092322	-2.715159864
5-May-11	0.000716931	0.019186401	2.076099047
6-May-11	0.000743722	-0.002991202	-0.323668427
9-May-11	0.000641816	0.003786092	0.409680872
10-May-11	0.000716345	0.005910616	0.639568799
11-May-11	0.000798879	0.001225374	0.132593809
12-May-11	0.000839303	-0.007021365	-0.759759449
13-May-11	0.000761176	-0.000329909	-0.035698445
16-May-11	0.00072217	-0.006186907	-0.669465467
17-May-11	0.000498194	0.001861624	0.20144036
18-May-11	0.000543365	-0.004375432	-0.473451549
19-May-11	0.000523733	-0.001011878	-0.109492112
20-May-11	0.000534151	0.00739556	0.800249943
23-May-11	0.000592505	0.004178372	0.452128239
24-May-11	0.000618293	0.007654515	0.828270596
25-May-11	0.000634025	0.002455855	0.26574021
26-May-11	0.000669093	0.001793332	0.194050721
27-May-11	0.000600269	0.00164346	0.177833529

On 2nd May 2011 American Navy seals attacked city of Abbotabad in Pakistan in search of a most wanted terrorist Usama Bin Laden and were succeeded in their aim, attack was taken as a threat to the sovereignty of Pakistan and had negative impact on market. Table 5 shows statistical results relating to this event. Standard error was calculated by the methodology of standard deviation and was found to be 0.009241563. "t-statistics" values for first two days after this event was found to be insignificant but third day after this event market showed a negative reaction and "t-statistics" values was found to be -2.7151598644 which is signicant and negative sign shows that market responded in a negative way. Fourth day after this event "t-statistics" value was calculated as 2.076099047 which shows that market revived from the shock of this news.

Table 6 (Resignation of Musharaf)

S.E		0.019923869	
Date	ER	AR	T
19-Aug-08	-0.002024056	0.020458235	1.026820389
20-Aug-08	-0.001894582	-0.034768817	-1.745083593
21-Aug-08	-0.002187235	-0.025683857	-1.289099861
22-Aug-08	-0.002386623	-0.021622871	-1.085274675
25-Aug-08	-0.002539517	-0.015651092	-0.785544803
26-Aug-08	-0.00264913	-0.037199314	-1.867072785
27-Aug-08	-0.003070406	-0.027656816	-1.388124764
28-Aug-08	-0.003313838	0.00972848	0.488282678
29-Aug-08	-0.003240138	0.003726776	0.187050808
1-Sep-08	-0.003212117	0.003417346	0.171520213
2-Sep-08	-0.003186614	0.005286437	0.265331838
3-Sep-08	-0.003147455	0.004191386	0.210370093
4-Sep-08	-0.003116636	0.003128542	0.157024834
5-Sep-08	-0.003553664	0.014632568	0.734424005
8-Sep-08	-0.003455996	-0.001475763	-0.074070095
9-Sep-08	-0.003545482	0.001757138	0.08819262
10-Sep-08	-0.003541127	0.007419532	0.372394121
11-Sep-08	-0.003541552	-0.002087377	-0.104767659
12-Sep-08	-0.003511695	0.002488868	0.124918913

On 18 August 2008 Pakistan's fourth Marshal Law administrator General (R) Parvez Musharaf resigned after a long period of nine years, table 6 shows KSE returns for the dates before and after this event along with the statistical calculations to check impact of this event on KSE. Standard error for this event was found to be 0.019923869 which was calculated by taking standard deviation of returns for dates prior to this event. "t-statistics" value of KSE returns for all the days after this event are insignificant, which means that market did not show any response to this event. This is due to the fact that after the elections this resignation was expected and market had already adjusted itself for this news.

Table 7 (Salala attack)

S.E		0.010277512	
Date	ER	AR	T
28-Nov-11	-0.000157942	-0.013150358	-1.279527415
29-Nov-11	-0.000251873	0.001363994	0.13271639
30-Nov-11	-0.000242199	0.002489618	0.242239411
1-Dec-11	-0.00022626	0.002351838	0.228833396
2-Dec-11	-0.000195246	-0.015955423	-1.552459682
7-Dec-11	-0.000341193	-0.007455422	-0.7254112
8-Dec-11	-0.000443488	0.010028831	0.975803423
9-Dec-11	-0.000389863	0.006693374	0.651263997
12-Dec-11	-0.000301313	0.001391902	0.135431803
13-Dec-11	-0.000296637	-0.017203153	-1.673863544
14-Dec-11	-0.000381992	0.002416626	0.235137208
15-Dec-11	-0.000384298	-0.014006889	-1.362867662
16-Dec-11	-0.000459185	-0.009589772	-0.933083034
19-Dec-11	-0.000526993	0.005491914	0.534362219
20-Dec-11	-0.000548019	0.023296354	2.266730844
21-Dec-11	-0.00042052	-0.005727264	-0.557261761
22-Dec-11	-0.000522793	0.003849537	0.37455922
23-Dec-11	-0.000521114	7.78917E-05	0.007578852
27-Dec-11	-0.000541721	0.001451838	0.141263599
28-Dec-11	-0.000551179	0.004187792	0.407471411

On 26 Nov 2011 Pakistan army check post at Afghanistan border was attacked by NATO Helicopters and as a consequence number of Pakistan army personnels were martyred. NATO officials claimed this attack due to miscommunication but Pakistan army called this attack as attack on sovereignty of Pakistan. Table 7 shows market statistics relating to this event and also statistical calculations to check impact of this event on market returns. Standard error value (0.010277512) was again calculated by the method of standard deviation. "t-statistics" value for the KSE return value of all post event dates are insignificant which shows that market did not show any response to this event. This might be due to the fact that NATO denied Pakistan's view in this regard continued to call Pakistan as its ally.

Table 8 (Deseating of Prime minister)

S.E		0.009141229	
Date	ER	AR	T
19-Jun-12	0.001270188	-0.006455876	-0.706237176
20-Jun-12	0.001350225	-0.002506342	-0.274179997
21-Jun-12	0.001398696	-0.006282124	-0.68722977
22-Jun-12	0.001293084	0.008235948	0.900967258
25-Jun-12	0.001316628	-0.007792373	-0.852442583
26-Jun-12	0.001261399	-0.000246681	-0.026985589
27-Jun-12	0.001396542	0.009026366	0.987434625
28-Jun-12	0.00145777	-0.001001323	-0.10953925
29-Jun-12	0.001566147	-0.001856655	-0.203107785
2-Jul-12	0.001637376	0.022806008	2.494851521
3-Jul-12	0.001779555	0.002303896	0.252033554
4-Jul-12	0.001643315	-0.003242391	-0.354699722
5-Jul-12	0.001676517	-0.002183766	-0.238891957
6-Jul-12	0.001648532	0.008131368	0.889526857
9-Jul-12	0.001723153	0.003112038	0.340439749
10-Jul-12	0.001751803	-0.002114189	-0.23128066
11-Jul-12	0.001722614	-0.00129625	-0.141802586
12-Jul-12	0.001672503	-0.000193811	-0.021201868
13-Jul-12	0.00173969	-0.006573689	-0.719125273
16-Jul-12	0.001746756	0.00189501	0.207303591
17-Jul-12	0.001696091	0.002514827	0.275108179

On 19th June 2012 Supreme Court of Pakistan de-seated former Prime minister of Pakistan Syed Yousaf Raza Gilllani because of his conviction under the charges of contempt of court. This event took place early in the morning and this news was broken at the same day during the trading hours that is way event date is also taken under post event period. Table 8 shows market returns for this period and statistical analysis required. Standard error value was calculated to be 0.009141229, again standard deviation of prevent returns was used as standard error. "t-statistics" values for the KSE returns of all post event dates are insignificant showing that market did not respond to this news in any way. This might be due to the fact that no policy change was expected by the new Prime minister due to political structure of Pakistan.

Table 9 (USA Presidential elections)

S.E		0.006926348	
Date	ER	AR	T
7-Nov-12	0.001046232	0.009296247	1.342157044
8-Nov-12	0.000971172	0.000585144	0.08448094
12-Nov-12	0.000874516	-0.002697854	-0.389506066
13-Nov-12	0.000856229	-0.006048027	-0.873191282
14-Nov-12	0.000872335	-0.001442874	-0.208316689
15-Nov-12	0.000811083	0.000586778	0.084716726
16-Nov-12	0.00093274	0.002448131	0.353451909
19-Nov-12	0.001070123	0.002235979	0.322822213
20-Nov-12	0.001098445	-0.001073217	-0.154946996
21-Nov-12	0.001049488	-0.000730805	-0.105510804
22-Nov-12	0.001187524	-0.001554818	-0.224478836
23-Nov-12	0.001195054	-0.002020575	-0.291722938
26-Nov-12	0.00130977	0.000713729	0.103045457
27-Nov-12	0.001315789	0.004462642	0.644299412
28-Nov-12	0.001206414	0.002408239	0.347692438
29-Nov-12	0.001300385	0.004954356	0.71529125
30-Nov-12	0.001408751	0.001417757	0.204690441
3-Dec-12	0.001439146	-0.003606347	-0.520670851
4-Dec-12	0.001358298	0.005401374	0.779829966
5-Dec-12	0.001390437	0.000142908	0.020632451
6-Dec-12	0.001521472	0.007365087	1.063343485

On 6th November 2012 USA had polling for its presidential elections, as a result of which President Obama was once again elected as president of USA and continued his stay at white house. Table 9 shows KSE returns for the event windows selected for this event along with "t-statistics" value for the KSE return of post event dates. Standard error for this event is 0.006926348 and method of calculating this value is same as for previous events. "t-statistics" values for the KSE returns of all post event dates are insignificant which shows that this event failed to impose its impact on market and market returns continued their previous trend. This might be because both presidential candidates had same policy regarding Pakistan and that is way elections results had no impact on market returns.

Conclusion

Political stability brings continuation in government policies and thus makes investors confident about their investments and enables them to take correct decisions on right time regarding their investment. The aim of this study is to identify the association of stock market returns with political instability in Pakistan and to check what sort of political events show their impact on market. Stock market of any country is considered as its economic indicator, so this study has enabled us to examine impact of political instability on economy of Pakistan.

For this purpose I chose nine different major political events during the time period of October 2007 – November 2012, these events were categorized in two different classes one class contains those events that caused change in government policy and second class contains those events that failed to have their impact on government policy. We used the methodology of event study to achieve desired objectives of this study. Out of these nine events five of them have significant impact on KSE returns where four of them failed to lay their impact on the market. The five events that showed significant impact on KSE were those which caused change in government policy and four events that did not show significant impact on KSE were those which did not cause change in government policy. Detailed discussion about the events is stated in the results chapter.

It is pertinent here to mention that the longest impact period of any event on KSE was found to be two days after which market managed itself to attain the position of pre-event date. This shows great revival power of market towards these events. Furthermore analysis showed that events which were taken positive by general public i.e. restoration of CJ and general elections of 2008, had positive impact on stock market returns which means that market showed an upward trend, similarly events negative in nature i.e. Abbotabad Operation, assassination of Banazir Bhutto and Emergency Rule of 2007, had negative impact on stock market returns which means that market showed downward trend after the news of these events. Some events showed no impact on stock market these events are resignation of Musharaf, Salala attack, deseating of PM Gillani and 2012 elections of USA, this was due to their inability to have impact on government policy.

Results have demonstrated that political events that cause change in government policy have significant effect on stock market returns which proves our hypothesis. These results give an insight about the price behavior of KSE in response to various political events of different natures. On the basis of results first hypothesis H_1 (i.e. the null hypothesis) is rejected and second hypothesis H_2 is accepted.

Recommendations

This research can help investors in anticipating market performance by understanding the nature of the event. Further studies could be conducted by including more events relating to various sectors of society such as economic, military and events relating to neighboring countries. Researchers can expand their research by adding more political events to this model. Moreover, analysis can be done on the industry level to separately inspect separately the impact of these events on individual stock or on portfolios. Furthermore we can use more countries in our data to test the impact of one country's political news on the other.

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