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Stock Market Behaviour in Response to Political Events: A Case of Pakistan Major Political Events

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Abstract

Purpose of this research is to unearth the effect of significant political events on stock market performance and volatility of Pakistan during the period 2013 to 2018.Event study methodology is employed to investigate the stock market behaviour in response to major political events i.e. the China Pakistan Economic Corridor CPEC (MOU), Prime Minister Nawaz Sharif disqualification, and the Elections held on 25th July 2018,in terms of four indexes (i.e. KSE 100 index, KSE all share indexes, KSE-30 index and KMI 30 index).Findings demonstrated that political events influence the stock market according to their nature.The contribution of this study is two folds. The effect of political events on stock market

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performance is relatively understudied in the context of Pakistan.Contrary to previous studies; the current study examined the effects on all the indexes quoted by Pakistan Stock Exchange(PSX).

Key words: Event study, China Pakistan Economic Corridor, Prime MinisterDisqualification, General elections, Stock market.

1. Introduction

Prosperity of economic conditions of a country can better be judged through the lens of stock market viability. The stock market has animperativeand a protagonist role in economic efficiency and development thus acting as a barometer of the economy. Significant political happening (i.e., events) can causefluctuations in the stock prices.There are bountiful evidences about different events affecting the behaviour of stock markets such as dividend announcements by companies(Khan, 2016),mergers and acquisitions(Gersdoff&Bacon, 2009;Liang, 2013; Gopalaswamyet. al., 2008), budget announcements(Sooft&Jefri, 1993; Ewing, 1998; Khan et. al., 2017), new laws and policies announced by state or the company(Thorbecke,1997).Political events are also among the influential factors that affect the stock market's performance. Around the globe, outcomes of political affairs on the stock markets have grabbed the attention of many researchers (Beaulieu et al., 2006).Political events have an effective role in devising the future monetary and fiscal policies of any country(Ahmed, 2017).

According to Bloomberg 2014 report Pakistan stock exchange was ranked as the 2nd most mature and 3rd best performer in South Asia and the world, respectively. Formerly Pakistan had three stock exchanges namely Islamabad stock exchange, Lahore stock exchange and the hoariest Karachi stock exchange. In January 2016 all the three stock exchanges were merged into a single one and named as Pakistan stock exchange(PSX). It comprises of 35 sectors and 573 listed companies.Different indexes are quoted by PSX, among which theKSE 100 index is the oldest. Introduced in November 1991, this indexis the

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most acceptable measure of performance by all investor and financial managers. According to Bloomberg it comprises of 100 best companies from 34 sectors of PSX. KSE all share indexeswas introduced in September 1995for the confirmation of KSE 100 index. Whereas the KSE 30 index represent only the free float of shares. TheKarachi Meezan index (KMI-30), introduced in 2009, comprised of 30 Shariah compliant companies. This index is calculated on the basis of free float rather than outstanding market capitalization.

The turmoil in Pakistan politics and the occurrence of different political events have prodigious effect on the stock market. Primary objective of this research study is to get insight on the effect of major political events (in the period of 2013-2018) on the stock market performance in Pakistan.The contribution of this study is two folds. The effect of political events on stock market performance is relatively understudied in the context of Pakistan. This study addressed this gap by analysing the effect of three major events i.e. the CPEC (MOU), Prime Minister Nawaz Sharif disqualification, and the 25th July 2018 Elections. Contrary to previous studies, the current study examined the effects on all the indexes quoted by PSX i.e. KSE-100 Index, KSE ALL SHARE index, KSE-30 index, KMI-30 index.

2. Literature Review& Hypothesis Development

Any news or happening that causes change in the stock prices can loosely be called as an event. Political events include all those events which have some relationship with the state or government.

2.1 Political Events and Stock Market Behaviour

Significant influence of political events on stock market behaviour is highlight by many scholars.Gemil (1992) documents momentous anomalies during governmental elections in United Kingdom. Political development has a significant influence on stock market and unfavourable (political) news has greater impact on volatility than the favourable ones (Kim & Mei, 2001).Significant empirical evidence in support of political events effect on Israel stock market returns is also

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provided by Zach (2003).By examining the political risk on Canadian stock returns Beaulieu, Cosset and Essaddam (2005) validated that the political news of Quebec separation from Canada had the vital role in stock market volatility. With regard to Turkey specifically Aktas and Oncu (2006) tested out the consequence of rejection of US bill by Turkish parliament on March1, 2003 on the Turkish stock market. Using market model they concluded that the stock market behave differently during an extreme and distasteful political events and that the efficient market hypothesis assumption are being supported by their results. Stock return volatility varies with the degree of a firm's exposure to political risk (Beaulieu, Cosset and Essaddam, (2005). Goonatilake and Herath (2007) used three categories of news i.e. good, bad and neutral to examine the relationship between the stock markets of NASDAQ, DJIA and S&P 500 and political news. Based on analysis of ten-week data from July 2006 to September 2006, it was revealed that good news decreased the volatility these stock markets and bad news increased it while it was unchanged in response to neutral news. The stock prices tend to fall during the election period and rise after the elections in Kenya stock market (Miya, 2007). Mehdian (2008) by using data over the period 1997-2004, uncovers that any announcement regarding political and economic events cause market volatility in case of Turkey and that for the unexpected information investors thoroughly set security prices below their fundamental values. Studying twenty four OECD countries Bialkowksi, Gottschalk,Wisniewski (2008) discovered that country-specific component of index return variance can easily be doubled during the week around an election. Laverde, Varua&Ozanne (2009) argued that the crime and political uncertainty have significant negative effect on the Colombian stock market in terms of volatility and stock market returns. Similarly by the use of GARCH (1, 1) model, Brunner (2009) also validated that AEX (Amsterdam Exchange Index) react significantly to the political uncertainties in Netherland.Moser and Rose (2013) carried out study to check regional trade agreements announcement (RTA) effect on stock prices. A twenty year data was taken for a sample of 80 countries. Their study found the significant positive relationship of these

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agreements with stock prices particularly, between trade friendly partners. The authors also found evidence indicative of more positive reaction of the market in the country that was included in that RTA. Chau et al. (2014) conducted study to discover the Arab Spring affect on the volatility of the MENA stock markets and the affect difference in Islamic and conventional indices. By using Uni variant and Multi variant GARCH analysis their investigations revealed that the political unrest and Arab Spring conflicts significantly increased the volatility and mainly through Islamic indices of MENA stock markets. Bin(2015) focused on the three zones of "the Greater China" that are Hong Kong, Taiwan and Mainland, all having different political and economic system in order to compare the their stock markets reactions to changes in political leadership between 2003 and 2014 period. By the use of Multivariate Regression model (MVRM) and E-GARCH models, he realized that the three stock markets react differently in stock prices and volatility for both good and bad news. Focusing on the link between stock market performance and democracy and political risks, Lehkonen and Heimonen (2015) conducted study on the panel of 25 emerging countries. By using OLS regression and system GMM techniques, they found the level of democracy and political risk affect returns of the stock markets significantly.Trinugroho(2016) by studying presidential elections effect that were held in 2014 on 387 publically traded companies in Indonesian stock market, evident the negative effect before the elections and rebounding effect after the event. The study also substantiates the apparent effect of the event on government controlled firms rather than on private firms.

Ahmed (2017) revealed that with different levels of intensity, political uncertainty has intensive effect on almost all market sectors in Egyptian Stock Exchange, by showing significant positive impact of the presidential elections of 2012 and 2014 while significant negative impact of military coup on EGX-100 index.

[Pakistan]

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Malik and Shakil (2009), presented evidence of the bearish and bullish trends in the returns of Pakistani stock market in the pre and post resignation scenario of Parvez Musharraf, the ex-president of Pakistan.

Stock market volatility, if measured using KSE-100 index, reduces with good political news and increases with the bad ones (Suleman, 2012). By applying event methodology and paired sample t-statistics on four-year data from 2007 to 2010, the Gul et.al (2013) proved the significant effect of natural, political and terrorism related events on the sock prices. Negative abnormal returns were observed before and after major political events by Mehmood et.al (2014) while investigating impact of 50 major political events from 1998 to 2013 on KSE-100 index. This gave an indication of significant relationship between political events and stock market performance of Pakistan Stock Exchange.Similarly Nazir et.al (2014) investigated the link between uncertain political events and Karachi stock market. By using mean adjusted model and event methodology on the events data collected from May 1991 to December 2011, it was reported that these event does have effect on KSE and the inefficiency of the market last for short period. Murtaza et al., (2015) studied effect of major political vents from the period 2007 to 2012 categorizing the events as those causing government policies to change and those that do not. The authors argued that KSE return are significantly affected by the events that caused changes in government policies. Mahmood and Ahmad (2017) examined PSX and Shanghai stock market response in terms of volatility because of CPEC lead 54 billion investments and discovered decrease of volatility in the post period of CPEC in comparison to the pre period. Khan et.al (2017) analysed the effect on budget announcement and political events from 1999 to 2016 on the PSX performance by dividing events into expected and unexpected categories and proved the significant effect of both political and budget events.

2.2 Hypothesis

Based on the literature the major hypothesis proposed is:

H1= Political events have significant effect on Stock Market Behaviour

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The sub hypotheses proposed are:

H2: The election has negative effect during the pre period and positive effect in the post period.

H3: CPEC(MOU) signed has positive effect on Stock Market.

H4: Prime Minister Disqualification has negative effect on Stock Market Performance.

3. Methodology

To analyse the effect of a particular event on the stock market performance we adopted event study methodology following the procedure suggested by MacKinlay (1997) and Brown (1985).Event study methodology was pioneered by Dolley (1933)and it gotmore sophistication and modifications in 1960's through the work of Brown (1968) and Fama etal., (1969).

3.1 Data Collection

Daily closing prices data was collected from the stock exchange official web site and from database www.ksestocks.com. An event window of 41 trading days, i.e., -20 before the event day, 1 on-event day (taken as 0) and, +20 after the event days. The estimation period comprisedof 247 trading days prior to the start of event window as per benchmark set by MacKinlay (1997).Table 1 showsthe events and their respective pre and post dates.

3.2 Major Political Events in Pakistan

Brief description of major event and then the detail in table

Table1: Major Political Events from 2013-2018

Event Name	Symbol	Event Date	Pre event Period -20	Post event Period +20
1.China Pakistan Economic Corridor(CPEC)	CP	20th April 2015	30TH June 2015-17th April, 2015	21ST April 2015-19th May,2015

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2.Prime Minister Nawaz Sharif Disqualification	PD	28th July 2017	30thJune,2017-27th July,2017	31stJuly2017-28th August 2017
3.GeneralElections 2018	GE	25th July 2018	27th June, 2018-24th July 2018	26th July 2018-28th August 2018

Event window

3.3 Instruments

Market model (Strong, 1992) was employed to measure abnormal returns as it is considered to be the most popular method for practical purposes.The following steps werecarried out for estimations.

Step 1: For market returns log returns were computed based on the formula:

$$Rmt = \frac{ln(Rt)}{(Rt-1)}$$

Where,

Rm =market returns on day t

Ln =natural log

Rt= current return value i.e. on day t

Rt-1= previous day return value i.e. on day t-1

Log is takenbecause it leads to more normalized data.

Step 2: Abnormal returns were computed using the formula,

ARit = Rit − Ex |Rit|

Where,

AR= abnormal Returns

Rit=real return on day t

Ex |Rit| = expected return on day t

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Expected returns are computed by taking the average mean return of the days in the estimation window as suggested by Schnusenberg and Madura (2001).

Step 3: Cumulative abnormal returns are computed using the formula,

$$CAR(t1, tk) = \sum_{t=t1}^{t=tk} AR$$

Where, t1 and tk represent the starting and ending points of the event window.

Step 4: t-statistic for the significance of abnormal returns is computed as,

t-stat $= CAR/SEi$

Where,

CARi=Cumulative Abnormal Returns

SE= standard error which is equal to St.Dev/Sqrt(n)

The significance of t-stats would be proved if the value of t stat is $\geq$ 1.64, 1.96 and 2.57 for confidence interval of 10%,5% and 1% respectively.

4. Results and Discussion

4.1 Event 1: General Elections

Pakistan general elections recently were held on 25th of July, 2018 in which Pakistan Tehreek- e-Insaf wining with majority arise as the admired party.Before the elections there was fear of postponement andbecause of the suicide bombing in Peshawar and South-WesternDistrictofMastungon July 10, 2018 and July 13, 2018 respectively. Dozens of people were killed in these attacks. The results here displayed are just as expected showing negative significance and insignificance in the pre election period and positive significance on stock returns in the post election period. All four indexes are showing somewhat similar trend. The results are in concurrence with the study of Miya(2007) and Ahmed(2017).hence the hypothesis 2 is accepted.

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Table: 2 Cumulative abnormal returns and T-Stats for general elections

	KSE 100	KSE ALL	KSE 30	KMI 30
-20	0.012 2.268**	0.007 1.615	0.014 2.382**	0.018 2.740***
-19	0.019 3.640***	0.016 3.756***	0.021 3.406***	0.028 4.256***
-18	0.018 3.340***	0.020 4.629***	0.016 2.722***	0.023 3.486***
-17	0.014 2.629***	0.015 3.493***	0.015 2.482***	0.018 2.649***
-16	0.010 1.948*	0.012 2.811***	0.010 1.653*	0.013 2.029**
-15	-0.019 -3.636***	-0.016 -3.672***	-0.021 -3.493***	-0.021 -3.141***
-14	-0.021 -4.046***	-0.015 -3.638***	-0.022 -3.717***	-0.021 -3.187***
-13	-0.020 -3.735***	-0.014 -3.373***	-0.019 -3.167***	-0.019 -2.939***
-12	-0.044 -8.416***	-0.035 -8.388***	-0.045 -7.435***	-0.046 -7.002***
-11	-0.039 -7.523***	-0.033 -7.856***	-0.036 -5.919***	-0.041 -6.140***
-10	-0.036 -6.780***	-0.032 -7.617***	-0.031 -5.150***	-0.033 -4.990***
-9	-0.028 -5.298***	-0.029 -6.857***	-0.022 -3.631***	-0.025 -3.800***
-8	-0.017 -3.316***	-0.018 -4.247***	-0.011 -1.776*	-0.028 -4.271***
-7	-0.03201 -6.111***	-0.033 -7.777***	-0.027 -4.449***	-0.045 -6.818***
-6	-0.0248 -4.733***	-0.022 -5.278***	-0.020 -3.241***	-0.038 -5.771***

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-5	-0.000 -0.080	-0.005 -1.088	0.008 1.258	-0.013 -1.954**
-4	0.022 4.161***	0.014 3.241***	0.033 5.518***	0.014 2.114**
-3	0.008 1.618	0.003 0.773	0.020 3.224***	0.000 0.030
-2	-0.010 -1.827*	-0.011 -2.603***	-0.001 -0.134	0.021 -3.169***
-1	0.012 2.354**	0.006 1.491	0.024 3.981***	0.007 1.042
1	0.031 5.881***	0.018 4.368***	0.048 7.971***	0.031 4.626***
2	0.048 9.114***	0.030 7.046***	0.067 11.152***	0.049 7.379***
3	0.066 12.615***	0.049 11.627***	0.086 14.293***	0.071 10.679***
4	0.047 8.976***	0.037 8.692***	0.063 10.469***	0.052 7.896***
5	0.050 9.508***	0.042 9.881***	0.065 10.733***	0.060 9.020***
6	0.039 7.453***	0.031 7.358***	0.052 8.520***	0.052 7.910***
7	0.044 8.335***	0.037 8.662***	0.056 9.250***	0.057 8.646***
8	0.051 9.790***	0.039 9.269***	0.065 10.688***	0.069 10.416***
9	0.051 9.669***	0.040 9.351***	0.064 10.581***	0.070 10.625***
10	0.051 9.639***	0.039 9.154***	0.064 10.577***	0.069 10.374***
11	0.055 10.592***	0.040 9.489***	0.069 11.445***	0.078 11.706***
12	0.054	0.040	0.068	0.075

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	10.324***	9.571***	11.160***	11.286***
13	0.050 9.506***	0.037 8.697***	0.063 10.478***	0.067 10.119***
14	0.046 8.745***	0.034 8.012***	0.057 9.494***	0.062 9.345***
15	0.035 6.645***	0.024 5.757***	0.045 7.386***	0.050 7.574***
16	0.047 8.938***	0.035 8.183***	0.059 9.701***	0.063 9.495***
17	0.047 8.938***	0.036 8.555***	0.060 9.879***	0.064 9.727
18	0.051 9.766***	0.041 9.587***	0.064 10.620***	0.069 10.345***
19	0.055 10.567***	0.044 10.318***	0.070 11.495***	0.073 11.040***
20	0.051 9.762***	0.037 8.720***	0.068 11.292***	0.067 10.154***

Note: Values are rounded off to three decimal places

- **Significance:*10%, **5%, ***1%**

4.2 Event 2:Prime Minister Nawaz Sharif Disqualification

Table 3 represent the CAR and the significant level of the event(i.e. PM Disqualification) for PSX indexes. Prime Minister Nawaz disqualification on 28th July, 2017 was on one side good news as he was charged for corruption but on the other side causes jeopardy among the investors because it was alarm to destabilizing of government and because of Nawaz prominent personality in the business community. His disqualification was likely to negatively influence stock market. As this news was in air from many days so its effect was seen expected to have negative influence on stock market indexes which is evident from significance of the followingresults. The results are showing significant effect before the event (i.e. from -19 to -1), on the event (i.e. 0) and after

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the event (i.e. 1-2) in all indexes but from day 3- 5 KMI 30 and on day 4, KMI all share and KSE30 show insignificant effect and after day 5 onwards again significance can be observed in all indexes. Thus Hypothesis 3 also came out to be true.

Table: 3 Cumulative Abnormal Returns and T-Stats for PM Disqualification

Event days	KSE-100	KSE-ALL	KSE-30	KMI30
-20	-0.004 -0.663	0.001 0.120	-0.009 -1.382	-0.012 -1.680
-19	-0.047 -7.645***	-0.036 -6.363***	-0.055 -8.911***	-0.058 -7.939***
-18	-0.031 -5.138***	-0.023 -4.047***	-0.037 -6.062***	-0.034 -4.742***
-17	-0.032 -5.216***	-0.024 -4.318***	-0.036 -5.885***	-0.031 -4.297***
-16	-0.046 -7.510***	-0.036 -6.361***	-0.052 -8.462***	-0.050 -6.845***
-15	-0.038 -6.204***	-0.029 -5.160***	-0.042 -6.857***	-0.036 -4.926***
-14	-0.016 -2.581***	-0.011 -1.941**	-0.018 -2.927***	-0.008 -1.165
-13	-0.064 -10.55***	-0.055 -9.875***	-0.070 -11.296***	-0.060 -8.305***
-12	-0.073 -11.92***	-0.059 -10.493***	-0.077 -12.466***	-0.077 -10.586***
-11	-0.074 -12.1***	-0.062 -11.006***	-0.077 -12.433***	-0.081 -11.120***
-10	-0.062 -10.18***	-0.054 -9.592***	-0.063 -10.134***	-0.066 -9.093***
-9	-0.059 -9.646***	-0.052 -9.291***	-0.058 -9.418***	-0.061 -8.413***

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-8	-0.035 -5.743***	-0.032 -5.771***	-0.032 -5.193***	-0.031 -4.249***
-7	-0.041 -6.675***	-0.036 -6.351***	-0.040 -6.464***	-0.040 -5.493***
-6	-0.049 -8.124***	-0.042 -7.411***	-0.048 -7.781***	-0.050 -6.861***
-5	-0.045 -7.421***	-0.038 -6.678***	-0.042 -6.852***	-0.044 -6.031***
-4	-0.041 -6.72***	-0.034 -6.038***	-0.038 -6.162***	-0.039 -5.373***
-3	-0.033 -5.473***	-0.025 -4.520***	-0.030 -4.874***	-0.029 -3.924***
-2	-0.034 -5.655***	-0.027 -4.751***	-0.030 -4.882***	-0.029 -3.998***
-1	-0.035 -5.813***	-0.026 -4.563***	-0.032 -5.245***	-0.032 -4.388***
0	-0.036 -5.938***	-0.022 -3.971***	-0.036 -5.833***	-0.031 -4.309***
1	-0.035 -5.735***	-0.020 -3.528***	-0.037 -6.034	-0.022 -3.058***
2	-0.035 -4.028***	-0.011 -1.997**	-0.024 -3.950***	-0.003 -0.468
3	-0.017 -2.717***	-0.005 -2.932***	-0.014 -2.257**	0.001 0.175
4	-0.015 -2.393**	-0.004 -0.800	-0.011 -1.792	0.001 0.203
5	-0.02 -3.264***	-0.009 -1.651*	-0.017 -2.795***	-0.005 -0.657
6	-0.03 -4.859***	-0.018 -3.223***	-0.028 -4.544***	-0.019 -2.556**
7	-0.041 -6.731***	-0.030 -5.262***	-0.039 -6.352***	-0.033 -4.526***

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8	-0.042 -6.811***	-0.029 -5.174***	-0.042 -6.815***	-0.035 -4.772***
9	-0.05 -8.265***	-0.037 -6.582***	-0.052 -8.450***	-0.046 -6.308***
10	-0.059 -9.66***	-0.044 -7.839***	-0.063 -10.199***	-0.057 -7.833***
11	-0.091 -14.92***	-0.076 -13.486***	-0.095 -15.414***	-0.095 -13.034***
12	-0.085 -13.99***	-0.072 -12.893***	-0.089 -14.406***	-0.092 -12.599***
13	-0.11 -18.09***	-0.095 -16.854***	-0.116 -18.722***	-0.121 -16.591***
14	-0.113 -18.46***	-0.095 -16.874***	-0.116 -18.731***	-0.121 -16.570***
15	-0.135 -22.17***	-0.116 -20.573***	-0.136 -21.960***	-0.147 -20.186***
16	-0.14 -22.98***	-0.121 -21.508***	-0.141 -22.805***	-0.155 -21.298***
17	-0.119 -19.54***	-0.104 -18.444***	-0.119 -19.273***	-0.132 -18.195***
18	-0.135 -22.16***	-0.119 -21.086***	-0.134 -21.687***	-0.151 -20.752***
19	-0.127 -20.87***	-0.113 -20.051***	-0.125 -20.231***	-0.139 -19.072***
20	-0.144 -23.61***	-0.125 -22.242***	-0.144 -23.359***	-0.012 -1.680*

Note: Values are rounded off to three decimal places

- **Significance:*10%, **5%, ***1%**

4.3 EVENT3: CPEC (MOU):

One Belt One Road (OBOR) an economic corridor initiative by Chinese government in 2013 entered into Pakistan in the form of China- Pakistan

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economic corridor CPEC on November 2014. It included different developmental projects related to energy, infrastructure and railways. The first Memorandum of understanding (MOU) was signed between former Prime Minister Nawaz and Chinese president Xi Jinping on april20th 2015[3]. The result of this MOU on stock market is practically investigated here. The results are insignificant in negative abnormal movements in the pre event period (i.e. -18 to -12) due to Qadri's protest against Government in 2014 end causing chaos in the investors but during (-6 to -1) and after the happening of this event the results of all indexes taken here are highly positively significant as reflected in table.2 which shows the investors attainment of confidence in CPEC and the government. Hence show the positive impact of CPEC on stock market performance. The results are in line with the results of Mahmood and Ahmed (2017) and because of this the Hypothesis 4 is accepted as well.

Table 4: Cumulative abnormal returns and T-Stats for CPEC(MOU)

Event Window	KSE 100	KSE ALL	KSE30	KMI30
-20	0.010 2.021**	0.009 2.165**	0.009 1.398	0.021 3.880***
-19	-0.006 -1.093	-0.004 -0.899	-0.005 -0.821	0.007 1.321
-18	-0.013 -2.595***	-0.011 -2.632***	-0.013 -1.966**	-0.003 -0.540
-17	-0.027 -5.260***	-0.023 -5.582***	-0.023 -3.515***	-0.024 -4.443***
-16	-0.052 -9.974***	-0.043 -10.498***	-0.050 -7.792***	-0.050 -9.341***
-15	-0.087 -16.860***	-0.074 -18.163***	-0.088 -13.579***	-0.095 -17.810***
-14	-0.044 -8.424***	-0.037 -8.956***	-0.042 -6.503***	-0.045 -8.426***

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-13	-0.032 -6.175***	-0.030 -7.296***	-0.029 -4.433***	-0.032 -5.988***
-12	-0.015 -2.983***	-0.016 -3.965***	-0.014 -2.171**	-0.012 -2.269**
-11	-0.007 -1.352	-0.012 -2.928***	-0.009 -1.369	-0.007 -1.290
-10	0.003 0.607	-0.002 -0.524	0.001 0.126	0.007 1.318
-9	-0.002 -0.430	-0.007 -1.692	-0.004 -0.642	0.002 0.377
-8	0.006 1.205	0.000 -0.026	0.006 0.911	0.016 3.085***
-7	0.010 1.859	0.006 1.536	0.009 1.439	0.017 3.158***
-6	0.020 3.773***	0.014 3.353***	0.022 3.378***	0.028 5.304***
-5	0.016 3.047***	0.010 2.330**	0.019 2.876***	0.025 4.668***
-4	0.011 2.102**	0.006 1.380	0.012 1.886*	0.019 3.498***
-3	0.015 2.826***	0.009 2.226**	0.016 2.412**	0.018 3.308**
-2	0.029 5.617***	0.019 4.731***	0.034 5.280***	0.035 6.532***
-1	0.044 8.427***	0.031 7.543***	0.053 8.132***	0.050 9.307***
0	0.045 8.721***	0.032 7.841***	0.058 9.033***	0.046 8.617***
1	0.036 7.041***	0.025 6.101***	0.050 7.802***	0.036 6.816***
2	0.049 9.575***	0.035 8.507***	0.066 10.229***	0.050 9.312***

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3	0.048 9.267***	0.033 8.115***	0.064 9.910***	0.050 9.435***
4	0.057 10.987***	0.040 9.901***	0.077 11.970***	0.056 10.470***
5	0.058 11.271***	0.040 9.827***	0.080 12.398***	0.055 10.390***
6	0.050 9.619***	0.035 8.475***	0.070 10.885***	0.047 8.897***
7	0.046 8.837***	0.033 8.083***	0.066 10.150***	0.045 8.357***
8	0.053 10.280***	0.038 9.346***	0.075 11.680***	0.056 10.598***
9	0.052 10.131***	0.036 8.750***	0.077 11.935***	0.058 10.865***
10	0.046 8.926***	0.029 7.149***	0.070 10.788***	0.054 10.175***
11	0.055 10.570***	0.042 10.205***	0.080 12.442***	0.063 11.903***
12	0.051 9.906***	0.042 10.170***	0.078 12.068***	0.059 11.151***
13	0.044 8.571***	0.034 8.377***	0.071 10.936***	0.052 9.752***
14	0.013 2.459**	0.008 2.003**	0.039 5.964***	0.012 2.203**
15	0.028 5.402***	0.022 5.344***	0.054 8.409***	0.029 5.471***
16	0.024 4.654***	0.020 5.018***	0.050 7.743***	0.027 5.150***
17	0.029 5.654***	0.024 5.845***	0.051 7.893***	0.036 6.734***
18	0.027 5.156***	0.020 4.981***	0.045 6.982***	0.031 5.827***

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19	0.021 4.145***	0.015 3.715***	0.040 6.178***	0.024 4.432***
20	0.044 3.110***	0.011 2.729***	0.034 5.267***	0.017 3.168***

Note: Values are rounded off to three decimal places

- **Significance:*10%, **5%, ***1%**

5. Conclusion

This study investigated the effect of three major political events on stock market performance. Here event study methodology in which market model is taken for analysis of 41 days event window. The study is aligned with the previous studies showing significance effects of these political events on stock market. Thus the political events proved to be playing a major role in effecting the returns of stock and the hypothesis proposed are proved.

5.1 Limitations and Future Research Directions

This study is only limited to Pakistan stock market response to political events.Future work can be done using not only political but different events and also by using different methodologies other than the event study. Comparison of different stock markets can also be done to check the effect of similar nature events.

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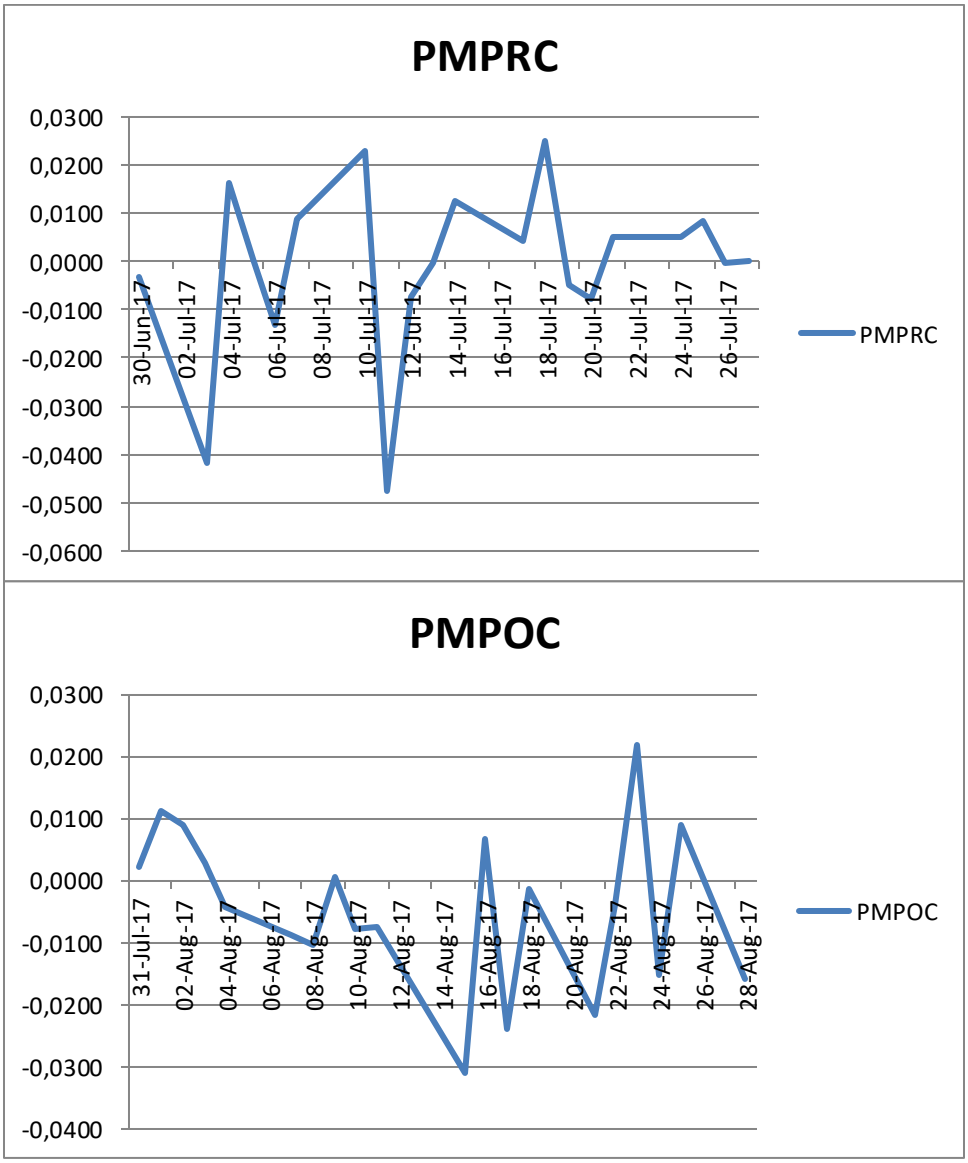

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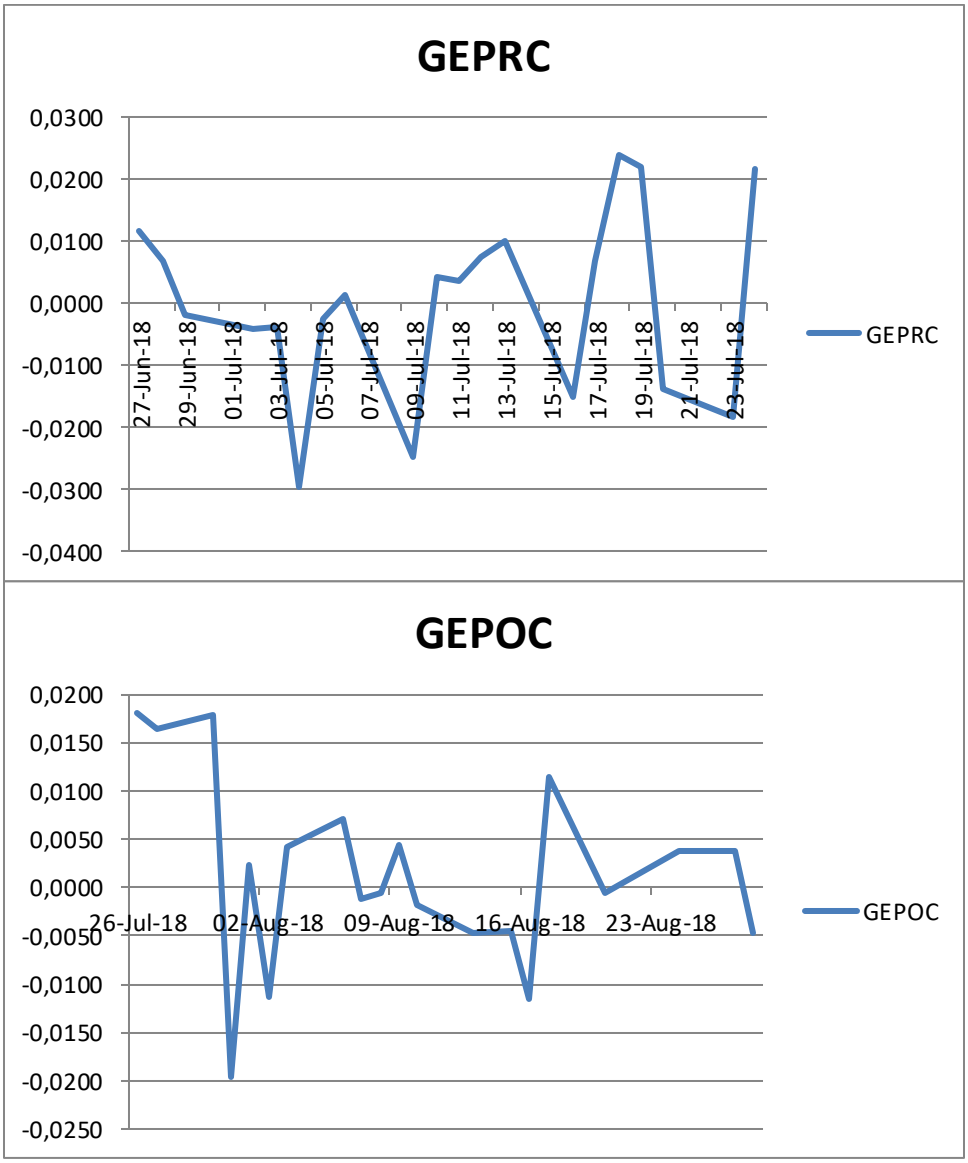

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