



## **An Event Based Analysis of Stock Return and Political Uncertainty in Pakistan: Revisited**

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### **ABSTRACT**

This study examines the impact of political events on the Pakistan Stock Exchange with the help of larger data set, the stock market of Pakistan which is considered the top-performing market in the region has suffered as well as foreign investors are reluctant to invest in Pakistan stock markets due to uncertainty caused by political instability. Pakistan is struggling against many problems; political instability is a significant problem due to which the economic growth of the country is being hindered and the confidence of the investors has been shaken. A total of 66 political events were considered in the study out of which 33 events were coded as positive and the other 33 were deemed negative. The 1<sup>st</sup>-day abnormal return, 5-day cumulative abnormal return, and 10-day cumulative return were calculated for all of the events. The political events were analyzed by segregating these into Pre-Musharraf, Musharraf, and Post-Musharraf eras and also on the bases of their category. This study finds evidence that political events affect the Pakistan Stock Exchange, but their impact is different considering the economic and political implications of these events. Certain events had a stronger impact on the stock market like the takeover of Musharraf, suspension of the chief justice, and assassination of Benazir Bhutto. Political events provided more consistent results where elections yield positive stock returns and the selection of prime minister yields negative stock returns after elections. Overall, this study lays the foundation to make further explorations into the phenomenon of uncertainty caused by political events in relevance to stock markets in Pakistan.

**Keywords:** Stock Return, Political Instability, Event Based Analysis

**JEL Classifications:** P16, G24

### **1. INTRODUCTION**

The conventional finance theory assumes that investor decisions are purely based on the risk-return considerations for all types of investment strategies (Baker et al., 1977). Behavioral finance asserts that investors are ordinary people influenced by sentiment and psychological prejudices, that markets are inefficient, and that differences in expected returns are decided by more than the differences in risk (Statman, 2014). Behavioral factors better explain the observation of stock markets that many investors make decisions following good/bad news, or other factors, e.g. herding, and loss aversion. The fundamental value and sentiment are the two driving forces of stock price movements. Stock prices reflect

actual value only when markets are efficient and traders have full information; however, in the real-world, irrational noise traders play a crucial part in influencing stock prices, and sometimes their roles are even more significant than the latter (Fisher and Statman, 2000). With the emergence of economic globalization, especially after the impact of the contemporary international financial crisis, the stock market has experienced unprecedented fluctuations. Therefore, different studies have linked stock returns with different macroeconomic and political indicators.

Political unrest is one of the main issues in developing countries like Pakistan. Since its birth, in Pakistan, no signal Prime Minister has completed their democratic five-year term after getting the

mandate of the public by the election. Throughout history, a military government had ruled in Pakistan, although macroeconomic indicators are best in a non-democratic government. But the non-democratic government is also considered the main cause of political instability. After the emergence of advanced information communication and technology (Audi et al., 2022), the world has become a global village, now news travels very fast and contagion can spread quickly capital markets have become more volatile and respond to different news of significance that might relate to the events representing changes in the macroeconomic prospects, instability caused by terrorist activities, and political turmoil (Dixon, 2009; Audi et al., 2021). Eventual changes in government and geographic conflicts also urge the terrorist attacks, which disturbed the macroeconomic indicators in Pakistan. These are terrorist attacks and political regime change which impact the mindset of foreign investors and the return of the Pakistan Stock Market may be affected (Chauhdary et al., 2021). Geographically Pakistan is situated at the junction of Afghanistan, China, India, Iran, and the Gulf States of oil-soaked sands, and this raises the strategic position of the country in the region and world. The war against the Taliban from 2000 to 2012 has also changed the importance of Pakistan to the rest of the world. But all these phenomena have discouraged the reruns of the Pakistan Stock Exchange. During the stable political environment, it has witnessed prosperity and stability in the stock market of the country which was nominated as the region's best-performing stock market twice in the last decade. The overall scenario of Pakistan provides a unique socio-economic and political environment that has distorted investors' expectations about the prospects of the corporate sector in the country (Rayman-Bacchus and Molina, 2001; Collier, 2003).

The concept of the efficient Market Hypothesis introduced by Fama (1965), considers information systems as one of the prerequisites for efficient market and stock returns. This information is comprised of all types of events that have economic implications (Campbell et al., 2003). A historical review of Pakistan shows that there is intense strife among political parties as well as instability due to the frequent intervention of military dictators. Under such conditions availability of information impacts the sentiments and the overall performance of the corporate sector. The assassination of Benazir Bhutto has a significant negative impact on Pakistan Stock Exchange and the index fell almost by 5% (Sohail and Hussain 2009; Sulehri and Ali, 2020). The Pakistan Stock Exchange was founded on September 18, 1947, Pakistan's largest, most liquid, and one of the oldest stock exchanges in South Asia. It was formally incorporated on March 10, 1949, under the name of the "Karachi Stock Exchange" as a company limited by guarantee. In October 1970 second stock exchange had been established in Lahore. In October 1989 Islamabad Stock Exchange had been established to facilitate investors in the northern part of the country. Ultimately, the Government of Pakistan merged the operations of three exchanges effective from January 11, 2016, under the new name 'Pakistan Stock Exchange Limited' (PSX) At present 854 companies are listed on the Pakistan Stock Returns and its market capitalization was Rs. 113.755 billion as on August 31, 2021 (KSE). KSE-100 index is the most famous index, which is used as a benchmark to assess market activity. The market

closed at 36235 points of the KSE-100 index on May 30, 2016. At present, there is a descending movement in the stock market and the stock market has witnessed a sharp drop from a level of more than 36,720 points in February 2016; the level the market attained for the very first time in its history. The level was achieved from the low of 4782 points in December 2008, after the stock market crashed from 15760 points (the highest at that time) in April 2008 (DAWN, 2012). This shows that political events in Pakistan are quite volatile and there is a need to study the link between political uncertainty and PSX returns.

## 2. LITERATURE REVIEW

Stock returns have a direct and indirect impact on socioeconomic development and real sector activities of an economy, thus studying the stock returns has been a vital area of research for the last few decades. Numerous theoretical and empirical studies examine the determinants of stock returns but the most relevant studies have been selected here as the literature review. A brief review of the literature will help in understanding the relevance of the content analysis in the area of stock returns. Conventional (neoclassical) finance asserts that stock market participants are rational investors (information traders) who seek maximum wealth by considering fundamental factors (e.g. macroeconomic indicators and financial ratios) and companies' intrinsic values (Baker et al., 1977). Even though some noise traders make decisions based on good/bad news, or engage in herding, they are irrelevant to the stock price, as rational majority traders can drive the price back to equilibrium in the long run (Friedman, 1953; Kumari and Mahakud 2015). In this case, the market is supposed to be efficient.

Abdelrehim et al. (2011) conducted a case study to see the impact of the nationalization of the assets of Anglo-Iranian Oil Company (AIOC, now British Petroleum) on stock prices of companies. This paper aimed to assess the relative bargaining of the Musaddiq regime and the influence of the AIOC in financially viable terms. To compare the stock market response to key proceedings in the political conciliation the methodology of event study was used by schedule preceding and following the nationalization. From AIOC and its shareholder's point of view, nationalization was explicitly bad news implying a serious failure in the company's policy. The events constituted in the study was the economic impact of nationalization on AIOC investors, the announcement of nationalization on 30 April 1951, and checking the impact of financial statement publications in November 1951. The Nationalization had an unenthusiastic collision on the members and the market adjusts speedily to new information revealed by Using the Market Adjusted Model.

Barelson (1952) defined content analysis as a technique of research that is a systematic representation of the matter of communication. According to Stone (1964), content analysis is a methodology or procedure which can be used to access particular information based on past references. The definition of content analysis requires that the inference be derived from the counts of frequency to place several standard methods on the borderline of acceptability (Reddy and Narayan, 2016).

Brown and Warner (1985) examined belongings of how the meticulous uniqueness of these data and daily stock proceeds have an effect on incident study methodologies for reviewing the stock price collision of firm-specific incidents. The earlier work was extended by this study paper in which they investigated event study methodologies used with monthly returns but now they accounted for daily returns. The 50 securities 250 samples are created. The relevant daily return data were collected from the Research center of the University of Chicago for which the securities were preferred at random and with the substitute from the population of the entire securities from July 2, 1962, to December 31, 1979. The study indicated that using daily stock return data creates some problems like non-normality, non-synchronous and market model parameter estimation, variance estimation, and important properties captured by simulation.

Beaulieu et al. (2006) conducted a study to assess the short-run outcome of ordinary shares return of Quebec firms by the October 30<sup>th</sup>, 1995 Quebec referendum. It was studied that in the twentieth-century political menace and risk is a universal phenomenon that exaggerated most stock markets in the country. The final sample has been taken of both accounting data and ordinary share price data consisting of 71 Quebec firms listed on the Montreal Stock Exchange and/or on the Toronto Stock Exchange. The event study methodology was used in this study. This study concluded that the results of the referendum had a positive short-run effect on the returns of the stock and statistically momentous and Quebec-based firms were comprised of the base of two mechanisms of firm's disclosure to political hazard: the organization of assets (assets in place Vs growth options) and the level of overseas participation.

Voth (1996) analyzed inflation, political volatility, and stock market instability in interwar Germany and the extent to which the collapse of democracy was a result of misguided economic policies. Monthly data was collected on the German share index to show that when political events occurred the volatility was high during the 1<sup>st</sup> years of the Weimar Republic. Political events are largely responsible for the high variability for the reason that the obvious connection between the political ambiguity, the level of industrial fabrication, and inconsistency of asset worth has been seen as the scoundrel of the section. Many of the significant discontinuities exposed by a nearer look that the Weimar Republic was unsuccessful to leave an outline in asset prices during the early years. Also, unenthusiastic proceedings were possible to correspond with price increases while using price turn down. A supplementary organized investigation of the association between political actions and asset price instability was unsuccessful to find a significant impact in this study.

Pantzalis and Park (2009) investigated stock market activities in different countries near political election dates. 33 countries' data were utilized and gives proof concerning links stuck between stock market efficiency and elections on a worldwide scale for the era 1974-1995. Using the theoretical frameworks of Harrington (1993) and Brown et al. (1988) they created underlying principles for the employ of things, like the timing of the election and result, the country's fiscal performance, and the level of press liberty to give details regarding the performance of the stock market near

to elections. The value-weighted equity indices relevant data was collected from Morgan Stanley Capital International from 45 countries and a world equity index. They concluded there is an optimistic and significant stock market response 2 weeks earlier to political elections.

### 3. THE MODEL

Macroeconomic conditions have a direct and indirect impact on the socioeconomic development of the country (Ali and Naeem, 2017; Ali, 2011; Ali, 2015; Ali, 2018; Ali and Bibi, 2017; Ali and Ahmad, 2014; Ali and Audi, 2016; Ali and Audi, 2018; Ali and Rehman, 2015; Ali and Senturk, 2019; Ali and Zulfiqar, 2018; Ali et al., 2016; Ali et al., 2021; Ali et al., 2021; Ali et al., 2015; Arshad and Ali, 2016; Ashraf and Ali, 2018; Audi et al., 2022; Audi and Ali, 2017; Audi and Ali, 2017; Audi et al., 2021; Audi and Ali, 2016; Audi et al., 2021; Audi et al., 2021; Audi et al., 2021; Haider and Ali, 2015; Kaseem et al., 2019; Roussel et al., 2021; Sajid and Ali, 2018; Senturk and Ali, 2021; Ali et al., 2022; Ahmad et al., 2022; Sulehri and Ali, 2020; Ali et al., 2021; Audi et al., 2020; Alim et al., 2022). Macroeconomic indicators, such as GDP, money supply, interest rate, inflation rate, and exchange rate, are considered the fundamentals that drive market movements, and each of these variables is perceived to be unbiased (Francis and Soffer, 1997). On the other hand, scholars argue that a firm's accounting information representing company value, such as revenue, earnings, assets, liabilities, and growth, also determines the fair (intrinsic) value of a stock. This study uses the mean-adjusted-return approach for the calculation of market abnormal returns each day after the event for the 10-day window. Data related to the PSX 100 index was collected from the website of the Pakistan Stock Exchange and 'Business Recorder' and DAWN newspapers were explored to locate significant events and their dates related to the political scenario. The abnormal returns are calculated as follows:

$$AR_{it} = R_{it} - \bar{R}_i$$

Where

$AR_{it}$  = Abnormal return of index  $i$  at time  $t$

$R_{it}$  = Actual return of index  $i$  at time  $t$

$\bar{R}_i$  = Expected return of index  $i$

$\bar{R}_i$  is calculated using a 20 days estimation period before the events by mean of index returns on days ( $\leq -30, -11$ ) where 0 is the event date. The expected return of the index is compared to the actual return of the stock on the event date i.e. 0. But to capture any subsequent impact of the event on the stock index two longer event windows would also be considered i.e. From event data for 5 trading days ( $t = +5$ ) and from the event date to 10 trading days ( $t = +10$ ). Cumulative abnormal returns (CARs) are also calculated for the longer event windows. This procedure is proposed and used by Chen et al. (2004). Further, to establish the significance of the abnormal returns and cumulative abnormal returns  $t$ -statistics have been used as proposed by Brown and Warner (1980). For better insight, the abnormal returns calculated using the procedure entailed previously would be analyzed separately. Political events analysis is distributed in two heads where political events first are analyzed on overall bases and after that political events

are also analyzed category wise where categories relating to defense, democracy, dictatorship, general elections, government suspension, international relations, strikes of political parties and political terrorist attacks are considered.

#### 4. RESULTS AND DISCUSSIONS

This part of the analysis provides the analysis of the political events regarding their impact on the stock markets in Pakistan. This section is further divided into two sub-sections where the first sub-section provides the summary results of all of the political events and then an analysis of the political events of the pre-Musharraf era, Musharraf era, and post-Musharraf era. The second part of the analysis provides the category-wise analysis of the political events and their subsequent impact on the stock returns. The political events were divided into nine categories relating to defense, democracy, dictatorship, general elections, government suspension, international relations, strikes of political parties, political terrorist attacks, and religious events. The result section provides the results on all positive and negative events of political significance considered in this study. Afterward, events were divided into pre-Musharraf, Musharraf, and post-Musharraf eras.

Table 1 provides the analysis of the overall significant political events that happened in the last two decades. A total of 33 positive political events occurred and its 1<sup>st</sup>-day average abnormal return is found to be 0.80% which is significant at a 5% level as indicated by a t-statistic of 2.508, 5 days cumulative return of the positive events is 2.30% which is also significant at 1% level (t-statistics = 3.478) and 10 days cumulative return is 3.12% which again is significant at 1% level (t-Statistic = 3.374). A total of 33 negative political events were considered for the study and 1<sup>st</sup> day average abnormal return of the all 33 political events is -0.65% which is not found significant (t-statistic = -1.459), 5 days cumulative return is -2.41% which is found significant at 5% level (t-statistic=-2.146) and 10 days cumulative return is -4.61% which is significant at 1% level (t-statistic = -2.882). It is concluded that positive political events have a positive impact on stock market return and negative events hurt stock market returns but overall stock market respond to positive events quickly and negative events slowly. Moreover, negative events on average yielded a stranger impact on the stock prices considering ten days window. Thus, the impact of negative political events on stock prices is reflected late.

Table 2 following provides the regime-wise political events and their impact on Karachi Stock Exchange. A total of 8 positive political events occurred in the Pre-Musharraf regime and the average abnormal return of these 8 events on event day is 0.83% which is not significant (t-statistics = 1.767), 5 days average

cumulative return of these 8 events is 3.56% which is significant at 10% level of significance (t-statistic = 2.224) and ten days cumulative return is 6.13% which is also significant at 5% level (t-statistic = 2.365). Thus, in the pre-Musharraf regime, the abnormal returns used to increase with time after an average positive event. There were a total of 10 negative political events during Pre-Musharraf regime and their average abnormal return on the first day was found to be -1.23% (t-Statistic = -1.032), five days cumulative return is -2.72% (t- statistics = -0.84) and ten days cumulative return is -5.62% (t- statistics = -1.296). All of these abnormal return averages are not significant. Thus, during the Pre-Musharraf regime, positive events had a positive and significant impact on stock returns; while negative events had a negative but insignificant impact on stock returns on stock returns in Karachi Stock Exchange. Further, the impact of positive events translated into the stock price a bit slower where abnormal returns on the first day were only.83%, and after 10 days these accumulate to 6.13% while negative abnormal returns although cumulated higher but remained insignificant.

During the Musharraf regime, a total of 19 positive political events occurred in Pakistan and their average abnormal return on the first day was found to be 0.56% (t- statistics = 1.272), five days average cumulative abnormal return of these 19 events was 1.15% (t- statistics = 1.709) and average ten days cumulative abnormal return was found to be 1.35% (t- statistics = 1.597). The lower t-statistics of all of the events indicate that positive political events did not have any significant impact on the stock return on Karachi Stock Exchange during the Musharraf regime. On the other hand, 17 negative political events occurred during the Musharraf regime and their average abnormal return on the first day was found to be -0.88% (t- statistics = -1.978) entailing a negative and significant (at 10% level of significance) impact on the stock returns, 5 days cumulative return was found to be -3.51% (t- statistics = -3.572) which is significant at 1% level and 10 days cumulative return was -6.09% (t- statistics = -3.986) which is also significant at 1% level of significance. Overall, during the Musharraf regime, the stock market did not respond to the positive events; while negative political events yielded a significant impact on the stock market. Moreover, the impact of negative events also accumulated from -0.88% on the event day to -6.09% on the tenth day indicating that the impact of the political event is translated into stock returns over time.

**Table 1: Average impact of all political events on stock market**

Nature	Count	AR0	CAR+5	CAR+10
(+) ve	33	0.80%	2.30%	3.12%
T-Stat.		2.508**	3.478***	3.374***
(-) ve	33	-0.65%	-2.41%	-4.61%
T-Stat.		-1.459	-2.146**	-2.882***

\*\*\*, \*\*, \*Significant at 1%, 5% and 10% level of significance

**Table 2: Average impact of Political Events on Stock Market (Regime-wise results)**

Regime	Nature	Count	AR0	CAR+5	CAR+10
Pre-Musharraf	(+) ve	8	0.83%	3.56%	6.13%
	T-Statistics		1.767	2.224*	2.365**
	(-) ve	10	-1.23%	-2.72%	-5.62%
Musharraf	T-Statistics		-1.032	-0.840	-1.296
	(+) ve	19	0.56%	1.15%	1.35%
	T-Statistics		1.272	1.709	1.597
Post-musharraf	(-) ve	17	-0.88%	-3.51%	-6.09%
	T-Statistics		-1.978*	-3.572***	-3.986***
	(+) ve	6	1.528%	4.267%	4.720%
Post-musharraf	T-Statistics		1.676	2.306*	2.214*
	(-) ve	6	0.979%	1.221%	1.249%
	T-Statistics		2.217*	1.317	0.613

\*\*\*, \*\*, \*Significant at 1%, 5% and 10% level of significance

Concerning the Post-Musharraf regime, a total of 6 positive political events occurred during this tenure, the average abnormal return of positive events on the 1<sup>st</sup> day was 1.528% (t- statics =1.676) which is not significant, five days average cumulative return is 4.267% (t- statics = 2.306) which was significant at 10% level of significance and average ten days cumulative return was 4.720% (t- statics = 2.214) which was also significant at 10% level of significance. Thus, during the post-Musharraf tenure, positive political events exert a positive impact on the stock returns the magnitude of which was realized during 5 days as the average stock returns of the event day was 1.528% which accumulate to 4.267% after five days and after ten days average accumulated returns were 4.72%. Apart from the positive events, a total of 6 negative political events occurred during the Post-Musharraf regime and their average abnormal return on the event day was 0.979% (t-statics = 2.217) which is significant at a 10% level of significance, 5 days average cumulative return of these 6 events was found to be 1.221% (t-statics = 1.317) and ten days average cumulative return was 1.249% (t-statics =.613). The average cumulative returns of both 5 days and 10 days were found insignificant. Thus, in the post-Musharraf regime stock market positively responded to the positive events, but remained irresponsive to the negative events. The small negative effects caused by the negative political events during the post-Musharraf regime seem to realize quickly on the event date.

**4.1. Category-Wise Analysis of Political Events**

Individual political events further were categorized into various types i.e. defense, General elections, the appointment of prime minister, democracy, general, suspension of government, judiciary, dictatorship, political strikes, and legislative development to assess the significance of these events according to their type (Table 3).

There were five defense-related events in the selected period and the first one is the nuclear test by the Government of Pakistan for effective defense of the country, international point of view this event is considered negative but as per the people of Pakistan, this is a highly positive event. On the first day of event the abnormal return is -4.52% (t- statics = -2.98) which is significant at 1% level, five days cumulative return is 3.20% (t-statistics = 2.12) which is significant at 5% level and ten days cumulative return is -2.08% (t-statics = -1.38) which is not significant at all.

The second event related to defense is the Kargil war with India is considered a negative event because war is the problem but not the solution to problems. First day abnormal return is -7.22% (t-statistics = -5.01) which is significant at 1% level, five days cumulative return is -23.26% (t-statistics = -16.16) which is significant at 1% level of significance and ten days cumulative return is -30.56% (t-statistics = -21.23) which is also significant at 1% level of significance.

The third event related to defense is the country-wide crackdown that has been launched against terrorists which has been considered negative for the economy of the country. On the 1<sup>st</sup> day of event the abnormal return is -1.74% (t-statistics = -0.92) which is not significant, 5 days cumulative return is -2.73% (t-statistics = -1.45) which is also not significant and ten days cumulative return is -3.14% (t-statistics = -1.67) which also is not significant. Thus, the imitation of the operation was not considered much important by the stock market investor.

The fourth event related to defense is the operation in North Waziristan, which was launched by the Govt. of Pakistan against terrorists and was considered negative for the economy of the country. On the first day of event the abnormal return was 1.74% (t-statistics = 2.16) which was significant at 5% level; five days cumulative return was 3.16% (t-statistics = 4.49) which was significant at 1% level and 10 days cumulative return was 2.25% (t-statistics = 2.25%) which was also found significant at 5% level of significance. This event was found positive despite the negative outlook of the event because investors in Pakistan had positive perceptions regarding operations against terrorists.

The fifth event related to defense is the Army of Pakistan launched the Rah-e-Rast operation and the Valley of swat had been cleared of Taliban elements which have been considered negative for the economy of the country. On the first day of event the abnormal return is 0.47% (t-statistics =.20) which is not significant, five days cumulative return is 1.45% (t-statistics =.63) which is not significant and ten days cumulative return is -2.57% (t-statistics = -1.11) which is also not found significant.

Overall, the events related to the defense did not yield many significant implications apart from the obvious strong negative impact of the Kargil war on the Pakistani stock market. Apart from

**Table 3: Political events related to defense**

Date	Description	Nature	AR0 (%)	CAR+5 (%)	CAR+10 (%)
May 28, 1998	Nuclear tests for effective defense in response to the Indian explosion of its nuclear plans. T-Statistics	(-) ve	-4.52%	3.20%	-2.08%
May 26, 1999	The war of Kargil between India and Pakistan. T-Statistics	(-) ve	-7.22%	-23.26%	-30.56%
July 19, 2005	Country-wide onslaught by the Govt. of Pakistan against extremist rudiments. T-Statistics	(-) ve	-1.74%	-2.73%	-3.14%
November 2, 2005	Govt. of Pakistan launched the operation in North Waziristan. T-Statistics	(-) ve	1.74%	3.61%	2.25%
May 25, 2009	Pakistan Army launched Operation Rah-e-Rast operation launched by Pakistan Army as a result Swat Valley is cleared of all Taliban almost. T-Statistics	(-) ve	0.47%	1.45%	-2.57%
			0.20	0.63	-1.11

\*\*\*, \*\*, \*Significant at 1%, 5% and 10% level of significance

that, the events of launching operations provided mixed evidence where one operation launched yielded a positive and significant impact on the stock market while the other two events were not found significant concerning their impact on the stock market. Nuclear tests provided negative and significant connotations on the event date and the impact was converted to a positive one in subsequent days and after that the impact again was negative. Overall, it would be concluded that the events related to defense have to be strong to yield a significant impact on the stock markets in Pakistan.

Table 4 provides political events related to democracy and their impact on the Pakistan stock markets. There were a total of eleven events that are related to the restoration of democracy in the country in the selected period the first one is the Supreme Court revoked the Presidential order and Nawaz Sharif was reinstated, this was a positive political event. On the first day of the event the abnormal return was 0.67% (t-statistics = 0.69) which is not significant, 5 days cumulative return of this event was 1.94% (t-statistics = 1.99) which was found significant at a 5% level of significance and ten days cumulative return was 4.36% (t-statistics = 4.47) which was also significant at 1% level of significance.

The second event related to democracy was that Benazir and Nawaz Sharif signed the Charter of democracy in London which was considered a negative event because at that time there was the Musharraf government and such an agreement would have caused political strife in the country. First day abnormal return was -3.71% (t-statistics = -3.56) which was significant at 1%

level of significance, five days cumulative return was -5.55% (t-statistics = -5.32) which was significant at 1% level of significance and ten days cumulative return was -12.38% (t-statistics = -11.88) which was also significant at 1% level of significance.

The third event related to democracy was the return of Benazir Bhutto to Pakistan after 8 years of exile; the stock market of the country took it negatively. Although the abnormal return on the first day of the event was 0.74% (t-statistics = 0.75) which was not significant, the five-day cumulative return was -3.83% (t-statistics = -3.87) which was significant at a 1% level of significance and ten days cumulative return of this event was -8.66% (t-statistics = -8.75) which was also found significant at 1% level of significance.

Forth event related to democracy considered in the study was the completion of the tenure of a democratic government which happened for the very first time in the history of Pakistan a democratic government completed five years and Muhammad Mian Soomro became caretaker Prime Minister which was considered a positive political event. On event day the abnormal return was -0.59% (t-statistics = -0.45) which is not significant, the five-day cumulative return was found to be 2.45% (t-statistics = 1.89) which was significant at a 10% level of significance, and ten days cumulative return was 2.54% (t-statistics = 1.96) which was also found significant but at 10% level of significance.

The fifth event related to democracy was the return of Nawaz Sharif who returned after 7 years of exile to Pakistan which was considered positive. The stock market of the country

**Table 4: Political events related to democracy**

Date	Description	Nature	AR0 (%)	CAR+5 (%)	CAR+10 (%)
Wednesday, May 26, 1993	Supreme Court revoked the Presidential order and Nawaz Sharif had been reinstated.	(+) ve	0.67%	1.94%	4.36%
	T-Statistics		0.69	1.99*	4.47***
May 15, 2006	Benazir and Nawaz Sharif signed the Charter of democracy in London.	(-) ve	-3.71%	-5.55%	-12.38%
	T-Statistics		-3.56***	-5.32***	-11.88***
October 18, 2007	Benazir Bhutto returned to Pakistan after 8 years of exile.	(-) ve	0.74%	-3.83%	-8.66%
	T-Statistics		0.75	-3.87***	-8.75***
Friday, November 16, 2007	For the first time in the history of Pakistan's democratic government completed five years and Muhammad Mian Soomro became caretaker Prime Minister.	(+) ve	-0.59%	2.45%	2.54%
	T-Statistics		-0.45	1.89*	1.96*
November 26, 2007	After 7 years of forced exile, Nawaz Sharif returned to Pakistan.	(+) ve	0.56%	2.80%	8.51%
	T-Statistics		0.34	1.68	5.12***
Wednesday, November 28, 2007	General Kiyani had been elected as the new Army chief.	(+) ve	0.92%	4.19%	8.58%
	T-Statistics		0.57	2.57**	5.26***
Monday, December 17, 2007	Constitution had been restored and the emergency is lifted.	(+) ve	-0.12%	1.28%	-2.23%
	T-Statistics		-0.08	0.88	-1.53
Monday, August 18, 2008	General Musharraf resigned from the presidency.	(+) ve	5.11%	-0.49%	-3.64%
	T-Statistics		2.15**	-0.21	-1.53
Monday, September 8, 2008	Zardari became the president of Pakistan after winning the election with 481 votes.	(+) ve	0.02%	1.89%	4.08%
	T-Statistics		0.01	0.66	1.42
October 10, 2011	Memo gate scandals and following conflicts.	(-) ve	1.69%	-0.89%	-6.36%
	T-Statistics		1.69	-0.89	-6.38***
Wednesday, November 27, 2013	New Army Chief has been elected (Gen. Raheel Sharif)	(+) ve	-0.47%	0.67%	1.13%
	T-Statistics		-0.43	0.63	1.05

\*\*\*, \*\*, \*Significant at 1%, 5% and 10% level of significance

behaved positively and event day abnormal return was 0.56% (t-statistics = 0.34) which was not significant, five days cumulative return was 2.80% (t-statistics = 1.68) which was also not significant and ten days cumulative return is 8.51% (5.26) which was significant at 1% level of significance.

The sixth event-related democracy was the selection of General Kiyani as Army chief which was considered a positive event and event day abnormal return of this event was 0.92% (t-statistics = 0.57) which was not significant, five days cumulative return was 4.19% (t-statistics = 2.57) which was significant at 5% level of significance and ten days return was 8.58% (t-statistics = 5.26) which was also significant at 1% level of significance.

The seventh event related to democracy was the restoration of the constitution whereby the emergency was lifted which was the good news. But, on event day abnormal return was -0.12% (t-statistics = -0.08) which was not significant, five days cumulative return was 1.28% (t-statistics = -1.53) which is not significant and ten days return was -2.23% (t-statistics = -1.53) which was also not significant.

The eighth event related to democracy was the resignation of Musharraf from the Presidency which was considered a positive event and event day abnormal return of this event was 5.11% (t-statistics = 2.15) which was significant at a 5% level, five days cumulative return was -0.49% (t-statistics = -0.21) which was not significant and ten days cumulative abnormal return was -3.64% (t-statistics = -1.53) which was also not significant.

The ninth event which is related to democracy was the appointment of Asif Zardari as president of Pakistan; as a result of this event the event day abnormal return was 0.02% (t-statistics = 0.01) which is not significant, five days cumulative return was 1.89% (t-statistics = 0.66) which was not significant also and ten days return was 5.08% (t-statistics = 1042\_ which was also not significant.

The tenth event related to democracy is the Memo gate scandal and subsequent conflicts in this regard, these were considered

negative events but the stock market abnormal return on event day was 1.69% (t-statistics = 1.69) which was insignificant, five days cumulative return was -0.89% (t-statistics = -0.89) which was insignificant and ten days return was -6.36% (t-statistics = -6.38) which on the other hand was found significant at 1% level.

The eleventh and last event related to democracy was the appointment of a new Army Chief (Gen. Raheel Sharif) this event was perceived as a positive event but the first-day abnormal return of this event was -0.47% (t-statistics = -0.43) which was not significant, five days cumulative abnormal return was 0.67% (t-statistics = 0.63) which was not significant and ten days cumulative abnormal return was 1.13% (t-statistics = 1.05) which is also not significant.

Overall, mixed evidence was found concerning the political events which strengthen democracy in Pakistan. The significant news in this regard was the agreement of the charter of democracy (negative) and the return of Benazir Bhutto (Negative); while the return of Nawaz Sharif (Positive) did not yield that strong result. Moreover, the impact of the return of Benazir was negative and Nawaz Sharif was positive. The lack of strong reports might be due to the absorption capacity of the market which mostly anticipates such democratic events and the happening of such events is normally confirmed before the event date. Thus, the information related to the happening of the events might be incorporated into the stock prices before the actual event date.

Table 5 provides the political events related to dictatorship. These events were deemed important because these events indicate the strengthening of the dictatorship. Five events were related to dictatorship in Pakistan in the selected period and the first one was the acceptance of constitutional deviation by 12 honorable judges this specific event was considered negative because it supported dictatorship. On the event day the abnormal return were found to be -2.93% (t-statistics = -2.77) which was deemed significant at 5% level of significance, 5 days cumulative return was -1.88% (t-statistics = -1.77) which was not found significant and ten days cumulative return was -12.14% (t-statistics = -11.44) which was significant at 1% level of significance.

**Table 5: Political events related to dictatorship**

Date	Description	Nature	AR0 (%)	CAR+5 (%)	CAR+10 (%)
May 12, 2000	Constitutional deviation has been accepted by 12 honorable judges for bringing to the book the corrupt, bureaucrats, politicians, and businessmen.	(-) ve	-2.93%	-1.88%	-12.14%
	T-Statistics		-2.77**	-1.77	-11.44***
Wednesday, June 20, 2001	Pervaiz Musharraf has become the president of Pakistan	(-) ve	0.35%	-0.74%	-4.54%
	T-Statistics		0.36	-0.75	-4.56***
Tuesday, April 30, 2002	Musharraf has been elected as President of Pakistan by referendum for five years.	(-) ve	-0.12%	-5.94%	-4.59%
	T-Statistics		-0.11	-5.71***	-4.41***
Thursday, January 1, 2004	President Musharraf won the confidence vote in provincial assemblies, National Assemblies, and the Senate.	(-) ve	-0.51%	-1.22%	-2.42%
	T-Statistics		-0.38	-0.90	-1.77
November 5, 2007	General Pervaiz Musharraf launched the state of emergency in the country nationwide crackdown on lawyers.	(-) ve	-5.30%	-6.33%	-12.25%
	T-Statistics		-6.54***	-7.81***	-15.13***

\*\*\*, \*\*, \*Significant at 1%, 5% and 10% level of significance

The second event related to dictatorship was that Pervaiz Musharraf became the president of Pakistan which was also considered a negative event because he represented dictatorship. Consequently, on event day abnormal return was only 0.35% (t-statistics = 0.36) which was not significant, five days cumulative return was -0.74% (t-statistics = -0.75) which was also not significant and 10 days cumulative return was -4.54% (t-statistics = -4.56) which was deemed significant at 1% level of significance.

The third event related to dictatorship considered was the reelection of Musharraf as President of Pakistan by referendum for another five years and as a result, on the first day of the event the abnormal return was -0.12% (t-statistics = 0.11) which was not significant, five days cumulative return was -5.94% (t-statistics = -5.71) which was significant at 1% level of significance and ten days cumulative return was -4.59% (t-statistics = -4.41) which was also found significant at 1% level of significance.

Forth event related to dictatorship was wining of vote of confidence by President Musharraf in provincial assemblies, National Assemblies, and the Senate as a result of the event the stock market's abnormal return on event day was -0.51% (t-statistics = -0.38) which was not found significant, five days cumulative return was -1.22% (t-statistics = -0.90) which was also not significant and ten days cumulative return was -2.42%, (t-statistics = 1.77) which was also not significant at all. This seems to be an anticipated event as the power of president Musharraf was increasing over time.

The fifth event related to the dictator's regime was the launching of a state of emergency by General Pervaiz Musharraf in the country and the countrywide crackdown on lawyers was started subsequently, this event was considered negative as a result on the event day of the event the abnormal return was -5.30% (t-statistics = -6.54) which was significant at 1% level, five days cumulative abnormal return was -6.33% (t-statistics = -7.81) which is significant at 1% level and ten days cumulative abnormal return was -12.25% (t-statistics = -15.13) which is also significant at 1% level.

Overall, the events related to the strengthening of the dictatorship yielded negative stock returns whereas some events were more

significant than the others like the declaration of emergency which indicates that showing off power from the dictator's side might lead to civil conflicts that could have serious consequences on the stock markets. Moreover, events that are anticipated like earning a vote of confidence and election as president did not yield much negative impact on the stock market.

Table 6 provides the details of elections held in the last two decades. A total of six events that are related to General Elections in Pakistan in the selected period were considered by the study and the first one is General Elections held in 1993 which were considered a positive event but on the first day of the event the abnormal return at Karachi stock exchange was found to be -0.35% (t-statistics = -0.74) which is not significant, five days cumulative return was 4.43% (t-statistics = 9.41) which is significant at 1% level of significance and ten days cumulative return was 9.82% (t-statistics = 20.83) which was also significant at 1% level and stock market of Pakistan behaved highly positive. Thus, the elections of 1993 proved to be positive for the Pakistani stock markets.

The second event related to General Election in Pakistan is as per the scheduled Election held in 1997 in which Nawaz Sharif won with a huge majority. This also was considered a positive event as a result of this event the abnormal return on the first day was 3.01% (t-statistics = 2.61) which was significant at a 5% level of significance, five days cumulative return was 9.02% (t-statistics = 7.85) which was significant at 1% level of significance and ten days cumulative return was 7.16% (t-statistics = 6.23) which was also found significant at 1% level. So elections of 1997 were also deemed positive in the stock markets of Pakistan.

The third event related to the Election was General Election held in 2002, this specific event has been considered positive but the stock market behaved negatively because the election was being held in a dictator regime, it is the general perception of people and journalists of Pakistan anyhow as a result on the first day of event abnormal return was -3.11% (-3.11) which was significant at 1% level of significance, five days cumulative return was -0.26% (t-statistics = -0.31) which was not significant and ten days cumulative return was 4.76% (t-statistics = 5.71) which was also

**Table 6: Political events related to general elections in pakistan**

Date	Description	Nature	AR0 (%)	CAR+5 (%)	CAR+10 (%)
Sunday, October 10, 1993	General Elections were held in 1993	(+) ve	-0.35%	4.43%	9.82%
	T-Statistics		-0.74	9.41***	20.83***
Tuesday, February 4, 1997	As per schedule Election was held in 1997 in which Nawaz Sharif won with a huge majority.	(+) ve	3.01%	9.02%	7.16%
	T-Statistics		2.61**	7.85***	6.23***
Friday, October 11, 2002	General Elections were held in 2002	(+) ve	-3.11%	-0.26%	4.76%
	T-Statistics		-3.73***	-0.31	5.71***
Monday, February 24, 2003	Senate elections were won by Pakistan Muslim League (Q) which was the ruling party	(+) ve	-1.21%	1.99%	1.02%
	T-Statistics		-0.49	0.80	0.41
Tuesday, February 19, 2008	General Elections were held in 2008.	(+) ve	3.08%	4.76%	3.11%
	T-Statistics		3.21***	4.97***	3.24***
Monday, May 13, 2013	General elections held in 2013	(+) ve	1.39%	2.90%	2.35%
	T-Statistics		2.33**	4.87***	3.94***

\*\*\*, \*\*, \*Significant at 1%, 5% and 10% level of significance



significant at 1% level. Thus, the general elections of 2002 which were held in the Musharraf regime yielded a negative return on the event date and subsequently, the returns became positive in the following days.

Fourth event considered is the Senate elections which were won by the Pakistan Muslim League (Q) which was the ruling party on the first day of the event abnormal return for this return was -1.21% (-.49) which was not significant, five days cumulative return following the event was 1.99% (t-statistics =.80) which also was not significant and ten days cumulative return was 1.02% (t-statistics =.41) which was also not significant at all. Thus, the senate election did not yield any significant impact on the stock markets in Pakistan.

The fifth event considered was General Election held in 2008 which was also perceived to be a positive political event and the stock market also behaved positively in this regard. On the first day of the event the abnormal return was 3.08% (t-statistics = 3.21) which was significant at a 1% level, five days cumulative return was 4.76% (t-statistics = 4.97) which was significant at a 1% level and ten days cumulative return is 3.11% which is also significant at 1% level.

The final and sixth event is the General elections held in 2013 which were won by Pakistan Muslim League (N) and have been considered a positive political, stock market also behaved positively so as a result, the abnormal return on the first day was 1.39% (t-statistics = 2.33) which was found significant at 5% level, five days cumulative return was 2.90% which was significant at 1% level and ten days cumulative return was 2.35% which was also significant at 1% level.

Overall, General elections in Pakistan have been deemed a positive signal to the stock market and in almost all cases, the stock market yielded a positive return.

Table 7 provides the political events on the suspension of the government or the resignation of any key political figure in Pakistan. A total of seven events were considered in this regard which was related to the suspension of key political figures in the country. The first event considered was the dismissal of Nawaz Sharif when President Ghulam Ishaq Khan exercised his powers and dismissed Nawaz Sharif's government by using Eighth Amendment. The event was considered negative. As a result of this event stock market abnormal return on first day was -0.35% (t-statistics = -0.0416) which was not significant, five days cumulative return was -1.70% (t-statistics = -2.023) which was significant at 10% level of significance and ten-day cumulative return was -0.36% (t-statistics = -0.434) which again was not found significant.

The second event in this regard was that both Nawaz Sharif and President Ishaq Khan resigned due to serious differences in their offices and as a result, the abnormal return on the first day of the event was -0.31% (t-statistics = -0.41) which was not significant, five days cumulative return was 6.74% (t-statistics = 8.80) which was found significant at 1% level of significance and ten days cumulative return was 2.55% (t-statistics = 3.32) which was also found significant at 1% level of significance. The positive impact of this event is due to the political strife between the office of president and prime minister which after the resignation of both was resolved.

The third event was related to the dismissal of Benazir Bhutto's Govt. which was dismissed by Farooq Leghari on charges of mismanagement and corruption by using the Eighth Amendment and new caretaker Prime Minister Malik Meraj Khalid was elected. By nature, it is a negative political event but due to the high level of corruption in the country dismissal of the government was perceived positively by the stock markets in Pakistan. On the first day of the event, the abnormal return was 5.60% (t-statistics = 5.58) which was found significant at a 1% level of significance; five

**Table 7: Political events related to Govt. suspension**

Date	Description	Nature	AR0 (%)	CAR+5 (%)	CAR+10 (%)
April 18, 1993	Ghulam Ishaq Khan exercised his power and dismissed the Nawaz Sharif government by using Eighth Amendment.	(-) ve	-0.35%	-1.70%	-0.36%
	T-Statistics		-0.416	-2.023*	-0.434
July 18, 1993	Nawaz Sharif and President Ishaq Khan both resigned due to serious differences in their offices.	(-) ve	-0.31%	6.74%	2.55%
	T-Statistics		-0.41	8.80***	3.32***
November 6, 1996	Benazir Bhutto's Govt. was dismissed by Farooq Leghari on charges of mismanagement and corruption by using the Eighth Amendment.	(-) ve	5.60%	1.83%	0.61%
	T-Statistics		5.58***	1.82*	0.61
December 2, 1997	Farooq Leghari resigned from his office.	(-) ve	0.59%	2.88%	-0.71%
	T-Statistics		0.22	1.07	-0.26
October 7, 1998	Serious differences and conflict emerged on the scene between Army General and Nawaz Sharif due to this conflict General Jehangir Karamat resigned from his office and a new Army chief was elected (Pervaiz Musharraf).	(-) ve	-6.01%	-19.85%	-32.25%
	T-Statistics		-3.65***	-12.03***	-19.55***
October 12, 1999	General Pervaiz Musharraf dismissed the Nawaz Sharif government.	(-) ve	0.62%	-7.85%	-5.02%
	T-Statistics		0.51	-6.44***	-4.12***
July 20, 2001	Muhammad Rafiq Tarar was removed as President by General Pervaiz Musharraf	(-) ve	-1.60%	-1.92%	-0.06%
	T-Statistics		-1.81*	-2.1**9	-0.07

\*\*\*, \*\*, \*Significant at 1%, 5% and 10% level of significance

days cumulative return was 1.83% (t-statistics = 1.82) which was significant at a 10% level of significance and ten days cumulative return was 0.61% (t-statistics = .61) which was not found significant.

Forth event in this regard was the resignation of President Farooq Leghari. Stock markets in the country did not respond to it in a significant manner and the first day's abnormal return was 0.59% (t-statistics = .22) which was not significant, five days cumulative return was 2.88% (t-statistics = 1.07) which was not significant and ten days cumulative return was -0.71% (t-statistics = -.26) which was also not found significant.

The fifth event considered was related to serious differences and conflicts which emerged on the scene between Army General and Nawaz Sharif due to this conflict General Jehangir Karamat resigned and a new Army chief was appointed. The first day's abnormal return of the event was -6.01% (t-statistics = -3.61) which was significant at a 1% level of significance, five days' cumulative abnormal return was -19.85% (t-statistics = -12.03) which was also significant at 1% level of significance and ten days cumulative return was -32.25% which was also found significant at 1% level of significance.

The sixth event is General Pervaiz Musharraf dismissing the Nawaz Sharif government which is a negative political event as a result first day's abnormal return was 0.62% (t-statistics = 0.51) which is not significant, five days cumulative return was -7.85% (t-statistics = -7.85) which was significant at 1% level of

significance and ten days cumulative return was -5.02% (t-statistics = -4.12) which was also significant at 1% level of significance.

The seventh event is Rafiq Tarar was dismissed as president by General Musharraf which was deemed a negative event and consequently the 1<sup>st</sup> day's abnormal return was -1.60% (t-statistics = -1.81) which is significant at a 10% level of significance, five days cumulative return was -1.92% (t-statistics = -2.19) which was significant at 5% level of significance and ten days cumulative return was -0.06% (t-statistics = -0.07) which is not significant.

Overall, the dismissal of the government is deemed a negative event in the stock markets of Pakistan. But the dismissal of the prime minister yields a much stronger impact than the resignation or dismissal of the president of the country.

Table 8 provides the political events relating to international relation and their subsequent impact on the stock markets in Pakistan. A total of 9 events were considered in this regard where the first event was related to the visit of Lady Hillary Clinton to Pakistan which changed the world's perception of Pakistan being a modern, forward-looking and liberal country as a result of this positive event the first-day abnormal return was -0.08% (t-statistics = 0.08) which is not significant, five days cumulative return was 1.94% (t-statistics = 1.78) is also not significant while ten days cumulative return was 3.63% (t-statistics = 3.63) which was found to be significant at 1% level of significance.

**Table 8: Political events related to international relations**

Date	Description	Nature	AR0 (%)	CAR+5 (%)	CAR+10 (%)
Sunday, March 26, 1995	First Lady Hillary Clinton visited Pakistan which changed the world's perception that Pakistan is a modern, forward-looking and liberal country.	(+) ve	-0.08%	1.94%	3.95%
	T-Statistics		-0.08	1.78	3.63***
Sunday, September 24, 1995	Brown Amendment passed by the USA to ease the restrictions on Pakistan this positive step generates attraction for foreign investors.	(+) ve	-1.08%	-4.96%	-7.22%
	T-Statistics		-0.90	-4.14***	-6.03***
Monday, February 22, 1999	Prime Ministers of Pakistan and India signed Lahore Declaration.	(+) ve	0.99%	4.78%	16.02%
	T-Statistics		0.68	3.27***	10.97***
November 12, 2001	President Musharraf met with USA president Bush and he assures one billion dollars in aid.	(-) ve	-1.96%	-5.99%	-12.27%
	T-Statistics		-0.72	-2.20**	-4.50***
Monday, January 7, 2002	Musharraf and Vajpayee meeting in Kathmandu at the last 11th SAARC summit.	(+) ve	2.59%	4.70%	7.56%
	T-Statistics		3.71***	6.73***	10.83***
Tuesday, June 24, 2003	Musharraf meets with Bush in Camp David as the US announced 5 years economic assistance plan.	(+) ve	-0.35%	0.39%	0.70%
	T-Statistics		-0.44	0.50	0.89
Friday, July 11, 2003	After an 18-month suspension, the Lahore-Delhi bus service was recommenced.	(+) ve	0.93%	1.75%	1.08%
	T-Statistics		1.55	2.91***	1.80*
Monday, May 24, 2004	Pakistan was readmitted to Commonwealth.	(+) ve	-1.01%	-1.29%	-3.61%
	T-Statistics		-0.73	-0.93	-2.60**
September 27, 2011	Nato supply is closed by Pakistan to Afghanistan in revenge for to attack Salala check post which killed 24 Pakistani soldiers.	(-) ve	2.29%	5.39%	6.07%
	T-Statistics		2.15**	5.06***	5.70***

\*\*\*, \*\*, \* significant at 1%, 5% and 10% level of significance

The second event considered was The Brown Amendment passed by the USA Senate to ease the restrictions on Pakistan this positive step generates attraction for foreign investors but the people of Pakistan most of the time do not take USA initiatives on a positive note. Thus, event first day abnormal return was  $-1.08\%$  (t-statistics =  $-0.90$ ) which is not significant, five days cumulative return was  $-4.96\%$  (t-statistics =  $-4.14$ ) which was found significant at 1% level of significance and ten days cumulative return was  $-7.22\%$  (t-statistics =  $-6.03$ ) which was also significant at 1% level of significance. This event generally indicated that stock markets in Pakistan do not take positive note of the USA initiatives even if they are in benefit Pakistan.

The third event considered in the study was related to the signing of the Lahore declaration between Pakistan and India Prime Ministers for better relations between both countries as a result of this positive event the first day's abnormal return was  $0.90\%$  (t-statistics =  $0.68$ ) which was not significant, five days cumulative return was  $4.78\%$  (t-statistics =  $3.27$ ) which was significant at 1% level of significance and ten days cumulative return was  $16.02\%$  (t-statistics =  $10.97$ ) which is significant at 1% level of significance.

The fourth event was when President Musharraf met with USA president Bush and he assures one billion dollars of aid to Pakistan. Consequently, first day abnormal return of this event was negative which was  $-1.96\%$  (t-statistics =  $-0.72$ ) which is not significant, five days cumulative return was  $-5.99\%$  (t-statistics =  $-2.20$ ) which is significant at 5% level of significance and ten days cumulative return was  $-12.27\%$  (t-statistics =  $-4.50$ ) which is also significant at 1% level of significance. Again the USA aid was considered negative in the stock markets of Pakistan.

The fifth event was related to the Musharraf and Vajpayee meeting in Kathmandu at the last 11<sup>th</sup> SAARC summit which has a positive impact on stock market returns as abnormal returns on the first day was  $2.59\%$  (t-statistics =  $3.71$ ) which was a significant at 1% level of significance, five days cumulative return was  $4.70\%$  (t-statistics =  $6.73$ ) which was significant at 1% level of significance and ten days cumulative return was  $7.56\%$  (t-statistics =  $10.83$ ) which was also found significant at 1% level of significance.

The sixth event related to international relations was Musharraf met with Bush in Camp David as the US announced 5 years economic assistance plan as a result of this event the abnormal return on the first day was  $-0.35\%$  (t-statistics =  $-0.44$ ) which was not significant, five days cumulative return was  $0.39\%$  (t-statistics =  $0.5$ ) which is also not significant and ten days cumulative return was  $0.70\%$  (t-statistics =  $0.89$ ) which was also not found significant. Thus, again USA assistance to Pakistan did not yield any significant positive impact on the stock markets in Pakistan.

The seventh event regarding international relations is after an 18-month suspension, the Lahore-Delhi bus service was recommenced as a result of this positive event abnormal return on the first day was  $0.93\%$  (t-statistics =  $1.55$ ) which was not significant,

five days cumulative return was  $1.75\%$  (t-statistics =  $2.91$ ) which was significant at 1% level of significance and ten days cumulative return was  $1.08\%$  (t-statistics =  $1.80$ ) which is significant only at 10% level of significance.

The eighth political positive event relating to international relations was that Pakistan was re-admitted to Commonwealth, as a result, the first-day abnormal return was found negative  $-1.01\%$  (t-statistics =  $-0.73$ ) which was not significant, and the five-day cumulative return was  $-1.29\%$  (t-statistics =  $-0.93$ ) which was also not significant and ten days cumulative return was  $-3.61\%$  (t-statistics =  $-2.60$ ) which only was found significant at 5% level of significance.

The ninth event related to International relations was that Nato supply to Afghanistan was closed by Pakistan to avenge the attack on the Salala check post where 24 Pakistani soldiers were martyred but Pakistani stock markets behaved positively to this event and the first-day return of the event was  $2.29\%$  (t-statistics =  $2.15$ ) which was significant at 5% level of significance, five days cumulative return was  $5.39\%$  (t-statistics =  $5.06$ ) which was also significant at 1% level of significance and ten days cumulative return was  $6.07\%$  which was also found significant at 1% level of significance.

Overall, mixed evidence was found concerning the political events related to international relations whereby events, where the USA supported Pakistan, were considered negative. This negative impact of the USA support to Pakistan could primarily be attributed to the conception about USA support where USA support generally was associated with the war on terror which caused many losses to Pakistan. Thus, such aid or support from the USA has broader implications that are considered negative in the context of the Pakistani stock market. Moreover, the subsequent Nato Supply stoppage from Pakistan after Salala check post-incident yielded positive stock returns which again reinforces the notion that Pakistan should dis align its direction with USA interest which has other consequences that embed losses in the long run to the economy of Pakistan. Apart from that generally, international relations with India are considered positive in the Stock market of Pakistan but the impact of such events is not much pronounced or strong due to the ongoing nature of such diplomatic initiatives between India and Pakistan.

Table 9 provides the political events related to the judiciary and lawyers' movement to restore the judiciary. The first event related to the judiciary was the suspension of Chief Justice Iftikhar Muhammad Ch. Market behaved negatively to this event and as a result first day's abnormal return was  $0.76\%$  (t-statistics =  $0.70$ ) which was not significant, five days cumulative return was  $-1.49\%$  (t-statistics =  $-1.37$ ) which also was not significant, and ten days cumulative return was  $-4.00\%$  which however was found significant at 1% level of significance.

The second event was the reinstatement of Chief Justice Iftikhar Ch. on temporary bases. Thus, as a result of this event first day's abnormal return was  $0.93\%$  (t-statistics =  $1.48$ ) which was not significant, five days cumulative return was  $1.72\%$  (t-statistics =  $2.73$ ) which was significant at a 5% level of significance and ten days cumulative

return was 1.39% (t-statistics = 2.2) which was also significant at 5% level of significance.

The third event was Lawyers Long March Movement succeeded, as a result, Iftikhar Mohammed Ch. was restored as Chief Justice of Pakistan along with the other judges dismissed by Musharraf. Consequently, due to this positive event, the first day's abnormal return was 5.05% (t-statistics = 2.32) which was significant at a 5% level, five days cumulative return was 11.38% (t-statistics = 5.22) which is a significant at 1% level of significance and ten days cumulative return was 12.64% (t-statistics = 5.80) which was also found significant at 1% level of significance.

Table 10 provides the details of the legislative and constitutional developments in the stock market in Pakistan. The first event related to legislation is the constitutional amendment of the Thirteenth Amendment. The stock market behaved positively but the first day's abnormal return was only 1.65% (t-statistics = 1) which is not significant, five days cumulative return was 2.14% (t-statistics = 1.3) which was also not significant and ten days' cumulative return was 1.40% (t-statistics = 0.85) which again was not significant.

The second event considered here was that Fourteen Amendment was passed and as a result of this event first day's positive

abnormal return was 1.82% (t-statistics = 1.76) which is not found significant, five days cumulative return on the other hand was 9.20% (t-statistics = 8.91) which was significant at 1% level of significance and ten days cumulative return was 13.55% (t-statistics = 13.12) which is also found significant at 1% level of significance.

The third event in this regard was the launching of the Local Government System (LGS) in Pakistan as a result of this positive event; the first day's abnormal return was 1.35% (t-statistics = 1.4) which is not significant, five days cumulative return was 4.29% (t-statistics = 4.45) which was significant at 1% level of significance and ten days cumulative return was 5.40% which was also found significant at 1% level of significance.

Fourth event related to the legislation was the passing of the Legal Framework Order 2002 (LFO). Consequently, first day abnormal return of this event was -0.89% (t-statistics = -1.03) which was not significant, five days cumulative return is 1.09% (t-statistics = 1.26) which is also not significant and ten days cumulative return was 2.29% (t-statistics = 2.65) which was found significant at 5% level of significance.

The fifth event was the Seventeenth Amendment LFO constitution had been amended has a positive impact on stock market returns as

**Table 9: Political events related to the judiciary**

Date	Description	Nature	AR0 (%)	CAR+5 (%)	CAR+10 (%)
March 9, 2007	Chief Justice Iftikhar Muhammad Ch. has been suspended.	(-) ve	0.76%	-1.49%	-4.00%
	T-Statistics		0.70	-1.37	-3.68***
Friday, July 20, 2007	Chief Justice Iftikhar Ch. has been reinstated temporarily.	(+) ve	0.93%	1.72%	1.39%
	T-Statistics		1.48	2.73**	2.20**
Monday, March 16, 2009	Lawyers Long March Movement succeeded, as a result, Iftikhar Mohammed Ch. was restored as Chief Justice of Pakistan and other judges were dismissed by Musharraf.	(+) ve	5.05%	11.38%	12.64%
	T-Statistics		2.32**	5.22***	5.80***

\*\*\*, \*\*, \*Significant at 1%, 5% and 10% level of significance

**Table 10: Political events related to legislative development**

Date	Description	Nature	AR0 (%)	CAR+5 (%)	CAR+10 (%)
Tuesday, April 1, 1997	Prime Minister has been empowered by Thirteenth Amendment to repeal 58 (2) b and advised the President for the appointments of three forces' chief, Governors, and Chief Justice Supreme Court of Pakistan. The Power to appoint an armed forces chief has been taken away from the president.	(+) ve	1.65%	2.14%	1.40%
	T-Statistics		1.00	1.30	0.85
Tuesday, July 1, 1997	Fourteenth Amendment has been passed; The Anti-Defection Bill was a structural reform to end the blackmailing party leadership for ministerial slots etc.,	(+) ve	1.82%	9.20%	13.55%
	T-Statistics		1.76	8.91***	13.12***
Wednesday, August 15, 2001	The local Government System has been installed after holding elections.	(+) ve	1.35%	4.29%	5.40%
	T-Statistics		1.40	4.45***	5.60***
Monday, August 26, 2002	Legal Framework Order 2002 has been passed in case of any difficulty the chief executive will have the power to pass orders and to make provisions for amending the Constitution or for removing any difficulty.	(+) ve	-0.89%	1.09%	2.29%
	T-Statistics		-1.03	1.26	2.65**
Friday, December 31, 2004	Seventeenth Amendment, LFO constitution has been amended.	(+) ve	1.54%	1.77%	4.31%
	T-Statistics		3.27***	3.77***	9.16***
Thursday, April 8, 2010	Parliament has unilaterally, turned Pakistan from a semi-presidential to a parliamentary republic by passing Eighteenth Amendment.	(+) ve	-0.18%	0.39%	-1.13%
	T-Statistics		-0.19	0.41	-1.19

abnormal returns on the first day was 1.54% (t-statistics = 3.27) which was significant at a 1% level of significance, five days cumulative return was 1.77% (t-statistics = 3.77) which was significant at 1% level of significance and ten days cumulative return was 4.31% (t-statistics = 9.16) which is also found significant at 1% level of significance.

The sixth and last event related to the legislation was that the Parliament unilaterally, turned Pakistan from a semi-presidential to a parliamentary republic by passing Eighteenth Amendment. Consequently, the abnormal return on first day was -0.18% (t-statistics = -.19) which was not significant, five days cumulative return was 0.39% (t-statistics = .41) which is not significant and ten days cumulative return is -1.13% (t-statistics = -1.19) which is also found not significant.

Overall, stock markets in Pakistan do not respond to legislative improvements. The most significant event was the 17<sup>th</sup> amendment, the 14<sup>th</sup> amendment, and the initiation of the local government system. The positive impact of these events is generally because these amendments and rules are to avoid corruption.

Table 11 provides the political events related to the selection or termination of prime ministers in Pakistan. A total of four events were considered in this regard where the first event is that Zafar Ullah Khan Jamali was elected as Prime Minister of Pakistan as a result first day's abnormal return was -0.57% (t-statistics = -0.35) which was not found to significant, five days cumulative return was -7.38% (t-statistics = -4.55) which was significant at 1% level of significance and ten days cumulative return was -2.65% (t-statistics = -1.64) which again was not significant. The direction of stock returns for this event was negative because this prime minister was appointed by General Pervaiz Musharraf who represented an anti-democratic force.

The second event considered in the study was the appointment of Shaukat Aziz and as a result of this event first day's abnormal return was -0.05% (t-statistics = -0.06) which was not found significant; five days cumulative return was -0.86% (t-statistics = -1.15) which was not significant and ten days cumulative return was -2.89% (t-statistics = -3.87) which although was found significant at 1% level of significance. This prime minister was also appointed by General Pervaiz Musharraf.

**Table 11: Events related to the prime minister of Pakistan**

Date	Description	Nature	AR0 (%)	CAR+5 (%)	CAR+10 (%)
Thursday, November 21, 2002	Zafarullah Khan Jamali was elected as Prime Minister of Pakistan.	(+) ve	-0.57%	-7.38%	-2.65%
	T-Statistics		-0.35	-4.55***	-1.64
Monday, August 23, 2004	Shaukat Aziz was elected as Prime Minister	(+) ve	-0.05%	-0.86%	-2.89%
	T-Statistics		-0.06	-1.15	-3.87***
Tuesday, March 25, 2008	Yousaf Raza Gillani was elected as prime minister of Pakistan.	(+) ve	-0.79%	-2.21%	-2.49%
	T-Statistics		-0.81	-2.27***	-2.55***
June 19, 2012	The Supreme Court of Pakistan (SCP) expelled and disqualified PM Gillani.	(-) ve	-0.22%	1.08%	6.53%
	T-Statistics		-0.23	1.15	6.93***

The third event in this regard was the appointment of Yousaf Raza Gillani as prime minister of Pakistan and as a result of this event, the first-day abnormal return was -0.79% (t-statistics = -0.81) which was not found to be significant, five days cumulative return was -2.21% (t-statistics = -2.27) which was significant at 1% level of significance and ten days cumulative return was -2.49% (t-statistics = -2.25) which was also found significant at 1% level of significance.

The fourth event was that The Supreme Court of Pakistan (SCP) expelled and disqualified PM Gillani. Consequently, the first day's abnormal return of this event was -0.22% (t-statistics = -0.23) which was not significant, five days cumulative return was 1.08% (t-statistics = 1.15) which was not significant and ten days cumulative return was 6.53% (t-statistics = 6.93) which was significant at 1% level of significance.

Overall, stock markets in Pakistan behaved negatively on almost every appointment new of the prime minister while disqualification of the prime minister was considered a positive event. These findings are quite surprising but the personal attributes of the prime minister could be important in this regard.

Table 12 provides the political events related to the strikes of Political parties in Pakistan. A total of three events of this type were considered in the study which along with their impact on the stock return is entailed hereunder.

The first event is the "Train March" led by Nawaz Sharif from Karachi to Peshawar as a result first day's abnormal return was 0.30% (t-statistics = 0.38) which was not significant, five days cumulative return was 2.18% (t-statistics = 2.28) which was found significant at 5% level of significance and ten days cumulative return was 4.10% which was also significant at 1% level of significance but the return was positive because stock market behaved positively due to corruption allegation on the government of Benazir Bhutto.

The second event considered was the "Wheel Jam" strike which was called by Nawaz Sharif as a result of this event first day's positive abnormal return was 0.93% (t-statistics = 1.55) which was not significant; five days cumulative return was 1.75% (t-statistics = 2.91) which was significant at 5% level of significance and ten days cumulative return was 1.08% (t-statistics = 1.80) which was significant but only at 10% level of significance.

The third event considered was the dharna of Tahir-ul-Qadri against Governmental (Nawaz Sharif) corruption in Pakistan due to this event the first day's abnormal return was -0.15% (t-statistics = -0.43) which was not significant, five days cumulative return was -0.74% (t-statistics = -2.09) which was significant at 5% level of significance and ten days cumulative return was 1.72% (t-statistics = 4.87) which is also significant at 1% level. This indicates that the stock market initially negatively responded to the event but over time it got recovered.

Overall, it seemed that the strikes and dharna politics do not have much to do with the stock market returns. The strikes of Nawaz Sharif against Benazir even yielded positive and significant stock returns and also dharna of Tahir-ul-Qadri have some impact on the stock market in the short run and the stock market recovered after assessing the situation as not being fatal for the government.

Table 13 provides the political events of significance relating to political terrorism where significant political leaders were killed or attacked. The first event considered related to political terrorism was the assassination of Mir Murtaza Bhutto under mysterious circumstances in a police ambush. As a result, the first day's abnormal return was -1.32% (t-statistics = -1.04) which was not significant, five days cumulative return was -0.92% (t-statistics = -0.72) which also was not significant, and ten days cumulative return was 1.47% (t-statistics = 1.15) which again still was not found significant and the returns also turned positive for a negative political event deeming this event to be insignificant for the stock markets in Pakistan.

The second event considered was September Eleven (9/11) which hurts all international stock markets and also the stock markets of Pakistan. Consequently, abnormal return on the vent date was -0.13% (t-statistics = -0.41) which was not significant, five days cumulative return was -13.28% (t-statistics = -13.83) which deemed the abnormal stock returns to be significant at 1% level of significance and ten days cumulative return was found to be -16.51% (t-statistics = -17.18) which is also significant at 1% level of significance. This event although not related to the local Pakistani stock market has political significance around the globe. The aftermaths of this event are still prevalent and are implicated in more than one country in the world where Pakistan is the main country that had a decade of alliance in the 'war against terror with the USA.

The third event in this regard was the killing of Nawab Akbar Bugti (Tribal Leader) in an armed conflict between tribal militants and government forces in Balochistan. As a result of this event the first day's abnormal return was 2.79% (t-statistics = 2.94) which was significant at a 1% level of significance, five days cumulative return was 4.05% (t-statistics = 4.27) which also was significant at 5% level of significance and ten days cumulative return was 0.49% (t-statistics = 0.49) which was not found significant. The killing of the Nawab Akbar Bugti was considered a positive event in the stock market because the conflict between the tribal lord and government was strife and the activities of the tribal lord were having serious economic consequences. Thus, the death of Nawab Bugti has been considered positive in the sense that a serious conflict came to an end.

**Table 12: Political events related to strikes of political parties**

Date	Description	Nature	AR0 (%)	CAR+5(%)	CAR+10(%)
September 20, 1994	“Train March” led by Nawaz Sharif from Karachi to Peshawar.	(-) ve	0.30%	2.18%	4.10%
	T-Statistics		0.38	2.82**	5.30***
October 11, 1994	“Wheel Jam” strike was called by Nawaz Sharif.	(-) ve	0.93%	1.75%	1.08%
	T-Statistics		1.55	2.91**	1.80*
January 14, 2013	Tahir-ul-Qadri dharna against Governmental corruption in Pakistan.	(-) ve	-0.15%	-0.74%	1.72%
	T-Statistics		-0.43	-2.09**	4.87***

\*\*\*, \*\*, \*Significant at 1%, 5% and 10% level of significance

**Table 13: Political events related to political terrorist attacks**

Date	Description	Nature	AR0 (%)	CAR+5 (%)	CAR+10 (%)
September 22, 1996	Mir Murtaza Bhutto was assassinated under mysterious circumstances in a police ambush.	(-) ve	-1.32%	-0.92%	1.47%
	T-Statistics		-1.04	-0.72	1.15
September 11, 2001	September Eleven 9/11 and Its Aftermath.	(-) ve	-0.13%	-13.28%	-16.51%
	T-Statistics		-0.14	-13.83***	-17.18***
Monday, August 28, 2006	Nawab Akbar Bugti (Tribal Leader) was killed in a battle between tribal militants and government forces in Balochistan.	(+) ve	2.79%	4.05%	0.47%
	T-Statistics		2.94***	4.27***	0.49
December 27, 2007	Benazir Bhutto two times PM was assassinated in a shooting and suicide bombing in Rawalpindi's Liaquat Bagh.	(-) ve	-0.67%	-5.92%	-10.13%
	T-Statistics		-0.67	-5.95***	-10.19***
Monday, February 16, 2009	Govt. of Pakistan has announced a truce with the Taliban, accepting a system of Islamic law in the Swat valley, and conceding the area as a Taliban sanctuary.	(+) ve	3.36%	8.36%	9.26%
	T-Statistics		1.34	3.35***	3.71***
January 4, 2011	Salman Taseer, the governor of Punjab, is shot by one of his bodyguards Malik Mumtaz Qadri near his home.	(-) ve	1.79%	1.02%	2.11%
	T-Statistics		2.60*	1.49	3.07***

\*\*\*, \*\*, \*Significant at 1%, 5% and 10% level of significance

Forth event considered was related to the assassination of Benazir Bhutto two times PM in a shooting and suicide bombing in Rawalpindi Liaquat Bagh. This was the most significant negative political event which hurts stock market returns as a result first day's abnormal return of this event was -0.67% (t-statistics = 0.67%) which was not significant, five days cumulative return was -5.92% (t-statistics = -5.95) which was significant at 1% level of significance and ten days cumulative return was -10.13% (t-statistics = -10.19) which was also significant at 1% level of significance.

The fifth event in this regard was that Govt. of Pakistan announced a truce with the Taliban, accepting a system of Islamic law in the Swat valley, and conceding the area as a Taliban sanctuary. The first day abnormal return was 3.36% (t-statistics = 1.34) which was not significant; five days cumulative return was 8.36% (t-statistics = 3.35) which was significant at 1% level of significance and ten days cumulative return was 9.26% (t-statistics = 3.71) which was also found significant at 1% level of significance.

The sixth and last event is considered the death of Governor Salman Taseer, who was shot dead by one of his bodyguards Malik Mumtaz Qadri near his home. Thus, the first day's abnormal return of this event was 1.79% which was significant at a 5% level of significance, five days cumulative return was 1.02% (t-statistics = 1.49) which was not significant and ten days cumulative return was 2.11% (t-statistics = 3.07) which was found significant 1% level. The assassination of Salman Taseer is not seriously taken by the stock market and the investors because it is assassination due to religious matters and there were also not any serious economic consequences in this regard.

Overall, the stock market responded to the events of political terrorism in a significant manner. The most significant events in this regard were 9/11 and the assassination of Benazir Bhutto. While true with Taliban and the death of Akbar Bugatti were considered positive significant events in the stock markets of Pakistan.

The only event fell in this category; the analysis for which is provided in Table 14. The event related to religion was the Lal Masjid Operation which was launched by the Govt. of Pakistan as a result of this particular event, the stock market behaved negatively, first day abnormal return of this event was -1.01% (t-statistics = -1.52) which was not significant, five days cumulative return of the event was -1.37% (t-statistics = -2.06) which was found significant at 10% level of significance and ten days cumulative return of the event was -6.21% (t-statistics = -9.36) which was also significant at 1% level of significance. Overall, stock markets responded to this event in a significant and negative manner, although the response seems late.

## 4.2. Summary of Analysis of Political Events

Political situations have direct and indirect impacts on the socio-economic environment of the country (Ali and Bibi, 2020; Ali and Senturk, 2019; Ali, 2011; Ali, 2015; Ali, 2018; Ali and Bibi, 2017; Ali and Ahmad, 2014; Ali and Audi, 2016; Ali and Audi, 2018; Ali and Rehman, 2015; Ali and Zulfikar, 2018; Ali et al., 2016; Ashraf and Ali, 2018; Kassem et al., 2019). A total of 66 political events were considered in the study; out of which 33 events were positive and the other 33 events were coded as negative events. Overall, analysis of the events provided that both positive and negative types of events yield a significant impact on stock markets in Pakistan. The negative events, however, cast their impact on the stock markets a bit late as the first-day abnormal returns of the first-day events were not found significant. Further in the Pre-Musharraf regime, a total of 18 political events happened, out of which 8 were considered positive and the remaining 10 were deemed negative. Overall, in the Pre-Musharraf regime, positive events yielded a significant positive impact on the stock market, while negative events did not yield a significant impact on the stock markets in Pakistan. The reason for this could be an immature stock market which at that time was not tied much to the political economy. Further, the Pre-Musharraf era is characterized by intense political strife between Nawaz Sharif and Benazir Bhutto and stock markets absorbed information quickly considering the prospects of the political economy; thus, in that era stock market remained relatively insensitive to negative news and showed positive abnormal returns to the positive news. Further, in Musharraf's regime, a total of 36 events were taken as political events out of which 19 events were considered positive events and 17 negative events. Overall, during the Musharraf regime, the stock market did not respond significantly to the positive events; while negative events yielded significant negative abnormal stock returns. The era of Musharraf is considered the era of prosperity where the industrial and financial sector was growing and investors had a positive outlook concerning the future. Thus, positive events were taken as normal and stock markets in Pakistan did not respond to the positive events in a significant manner. On the other hand, negative events were taken seriously in the Musharraf regime by the investors, and stock markets in Pakistan as a consequence responded negatively to the negative events. About the Post-Musharraf regime, a total of 12 events were considered out of which 6 were positive events and another 6 were negative events. Positive events of the Post-Musharraf regime yielded positive abnormal returns but the impact of these events was a bit late as on the first day abnormal returns were not found significant. Negative events also yielded positive abnormal returns but only the first day of abnormal return was found significant and the significance of the positive abnormal returns died over time.

Further, the total political events were segregated into different categories to explore the significance of the categorical classification of the political events on the stock markets in

**Table 14: Political events related to religion**

Date	Description	Nature	AR0 (%)	CAR+5 (%)	CAR+10 (%)
July 10, 2007	Lal Masjid Operation was launched by the Govt. of Pakistan.	(-) ve	-1.01%	-1.37%	-6.21%
	T-Statistics		-1.52	-2.06*	-9.36***

\*\*\*, \*\*, \*Significant at 1%, 5% and 10% level of significance

Pakistan. The first category considered was related to defense. The defense events did not yield much impact on the stock markets apart from the obvious negative impact of the Kargil war (Wasim et al., 2013). The second category considered was related to the state of democracy in the country. Such events also provided mixed evidence where the most significant events were the signing of the charter of democracy between Nawaz Sharif and Benazir Bhutto and the return of Benazir Bhutto. The information about such events is pre-disclosed in the media and the severity of the surprise element is reduced as prices in the stock markets appropriately start to behave following the expectancy of happening of such events. The next category considered was related to the strengthening of dictatorship which mostly yielded negative stock returns. The most significant event in this category was found to be the declaration of emergency from President Pervaiz Musharraf in the country. The next category in this regard was the general elections. Elections generally are considered positive signals and stock markets yielded positive returns in Pakistan after general elections. The next category is related to the suspension of the government which showed that suspension of the prime minister is considered a negative event but suspension or resignation of the president is not considered a negative event. The most significant event in this category was related to the conflict between the army and Nawaz Sharif and also the suspension of the Nawaz government by General Pervaiz Musharraf. The next category considered was related to international relations. Mixed evidence in this regard is found where aid initiatives of the USA were considered negative events probably due to association of this aid with the war on terror while suspension of NATO supply by Pakistan was considered much positive in the stock market of Pakistan (Arzu, 2011). Considering the events of India and Pakistan; positive events yielded positive stock returns and negative events yielded negative stock returns but their impact is not that strong and significant. The next category considered was related to the judiciary where termination of the Chief Justice was considered a negative event while reinstatement of the Chief Justice was considered a positive event in the stock markets of Pakistan (Arzu, 2011). Legislative development is the next category considered. Stock markets in Pakistan do not respond much to legislative developments. Only the 17<sup>th</sup> and 14<sup>th</sup> amendments yielded a significant impact on the stock market where the 14<sup>th</sup> amendment was related to the elimination of corruption in political parties and the 17<sup>th</sup> amendment was related to the local body system which also was a step to remove corruption. Thus, steps taken to eliminate corruption yielded positive returns in the stock markets of Pakistan. The next category considered was related to the prime minister's appointment in Pakistan. Appointment of the prime ministers in Pakistan is considered a negative event primarily due to the past track record of the people being appointed as prime ministers. The event of disqualification of PM Gillani yielded a positive impact on the stock market which is quite surprising but the personal characteristics of the prime ministers could be important in this regard. The next category considered was related to the strikes of political parties. It seemed that strikes do not have much impact on the stock market and the stock market responded positively to the strikes of Nawaz Sharif against Benazir yielding positive stock returns while the dharna of Tahir-ul-Qadri also did not yield a strong impact on stock markets in Pakistan. The

next category was related to political terrorism. Stock markets in Pakistan responded to such events in a significant manner whereas the incident of 9/11 (Brustein, 2006) and the assassination of Benazir Bhutto has the strongest impact on the stock markets of Pakistan. The last category considered in this regard was related to religion. Only one event was considered in this category i.e. the Lal Masjid Operation which yielded a strong and negative impact on the stock markets in Pakistan.

Overall, the findings in this section indicate that stock markets in Pakistan do respond to political events in an appropriate and significant manner. This is consistent with the past evidence in this regard (Julio and Yook, 2012; Arzu, 2011; Bley and Saad, 2011). But considering the dynamics of Pakistan traditional coding of positive or negative does not apply to Pakistan where events like the suspension of the prime minister could also be seen as positive events in the stock market. Thus, every political event does convey information to the stock market and the sensitivity of the stock market to an individual event could differ depending upon the nature and dynamics of the event which is open to interpretation and cannot be classified in a standardized manner.

## 5. CONCLUSIONS

Being a developing country, Pakistan remains politically unstable throughout its history. Since independence, the democratic governments in Pakistan rarely complete their tenure. This uncertainty is the root cause of other socioeconomic issues e.g. capital flight, foreign debt, trade deficit, poverty, and unemployment. Considering the efficient capital market proposition, the stock market responds to significant events in an appropriate manner, and Pakistan in this context provides an appropriate setting to test the propositions of efficient capital markets theory. Apart from testing the theory, this study also highlights the impact of political uncertainty on the stock market. The study found evidence that both positive and negative political events yield significant abnormal returns in the stock markets in Pakistan. Category-wise analysis of the political events suggested that the nature and significance of the individual events matter a lot where certain events within the category yielded a stronger impact on the stock market and others yielded an insignificant impact. The most significant event found in the study was the 14<sup>th</sup> Amendment yielded a significant impact on the stock market where the 14<sup>th</sup> amendment was related to the elimination of corruption in political parties. It seemed that strikes do not have much impact on the stock market and the stock market responded positively to the strikes of Nawaz Sharif against Benazir yielding positive stock returns. Overall, this study found that stock markets do respond to political events in Pakistan, but the implications of each event might be different. Following are the implications and recommendations of the study in this regard:

- The study finds varying evidence about political events implying that each political event has its implication, according to the nature and strength of the events. The economic and political consequences of these events seem relevant in this regard.
- Stock markets in periods of prosperity, consider positive news normal, and in periods of low economic growth consider



negative events normal. While negative events are responded to in good times and positive events are responded to in bad times.

- Policymakers should adopt a stabilized outlook of both political and economic scenarios to avoid negative shocks of negative events on the stock market.
- Government should also make some serious progress to address corruption and strengthen the legislation in this regard. Stock markets in Pakistan responded to all events which somehow were related to the reduction of corruption.

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