



ISSN: 0975-833X

**RESEARCH ARTICLE**

**THE INFLUENCE OF POLITICAL INCIDENTS ON STOCK MARKET – A COMPARATIVE STUDY –  
BANKING & INFRASTRUCTURE INDUSTRY**

**\*Dr. Puja Archana Sahu and Mrs. Sakshi Relan**

AMC College, Bangalore, India

**ARTICLE INFO**

**Article History:**

Received 12<sup>th</sup> February, 2014  
Received in revised form  
09<sup>th</sup> March, 2014  
Accepted 07<sup>th</sup> April, 2014  
Published online 31<sup>st</sup> May, 2014

**Key words:**

Alpha,  
Beta,  
Infrastructure Industry,  
Banking Industry,  
Stock returns.

**ABSTRACT**

The change in the stock price market is an everyday occurrence. The buyers & sellers cause the changes & thus decide the price of each stock. Various factors influence the changes of the stock market such as GDP of the country, recession, growth in industrial production, irrational behaviour of the investors, changes in the political scenario, influences from the other stock exchanges of the world, economic reforms after liberalisation etc. out of which changes in the political environment are given more preference in this research paper. The reason being for this selection are the political parties who reign in the country decide the legal restriction as well as pass laws to ensure the all round development of the country. The researcher has tied to find out whether the political events in the political scenario caused any significant changes in the stock markets. In this paper, the researchers have dealt with two companies of each sector i.e. banking & Heavy industry. The companies selected from the heavy industry sector are Bharat Heavy Electricals Limited (BHEL) & Larsen & Tubro where as for the banking sector the banks selected were State Bank of India (SBI) & Punjab National Bank (PNB). This paper has also dealt with the calculation of systematic & unsystematic risk of each stock for the month of December.

Copyright © 2014 Dr. Puja Archana Sahu and Mrs. Sakshi Relan. This is an open access article distributed under the Creative Commons Attribution License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.

**INTRODUCTION**

There are various news announcements and political events that effect the economy which has been discussed in this literature review. Bailey and Chung (1995) have indicated that impact of exchange rate fluctuations and political risk on the risk premium reflects in cross-sections of individual equity returns from Mexico and found evidence of equity market premiums for risk exposures. Kim and Mei (1999) takes into consideration the jump-diffusion process and studied the volatility of Heng Seng Index in relation to political events. Aggarwal, Inclan and Leal (1999) studied the kinds of events that cause large shifts in the volatility of emerging stock markets. They found that most events tend to be local. The 1987 stock market crash was the only global event that caused a significant jump in the volatility of several emerging markets. Kim and In (2002) examined the impact of the major stock markets such as US, UK and Japan and of the domestic and international macroeconomic news announcements on Australia's financial market. There results confirm that the movements in the three major foreign stock markets do influence the futures and stock markets in Australia. They also found that some US and Australian macroeconomic news announcements had significant effect on Australian financial markets. Fong and Koh (2002) used an EGARCH model and

found strong evidence of regime shifts in conditional volatility. They also found that major political uncertainties were reflected in a switch to the high-volatility regime.

Beaulieu, Cosset, and Essaddam (2005) studied the impact of political risk in Canada on the volatility of stock returns and found support for a close link between the two. It is important to note most of the existing research on event analysis focuses on a single regime shift. We did not use 'a priori' regime shift to analyze. This paper uses the data to identify multiple regime shifts. This is an interesting feature of the paper. As regards to the question of interlink ages of the three financial markets, the existing research is not so thin. Fukuda and Kano (1997) investigate how prices in East Asian economies correlate with those in Japan and the United States and found that overall price levels in East Asia are more correlated to the price level in the United States. Aggarwal and Kyaw (2005) study the equity market integration in the NAFTA region and found evidence supporting an integrated market. Khalid and Kawai (2003) found support for currency market linkages within East Asian region. Khalid and Rajaguru (2005) investigate a global cross-market linkages and found empirical support for it. Pan, Fok and Liu (2006) examine the dynamic linkages between exchange rates and stock prices for seven East Asian countries and found evidence of a causal relationship between the two markets in all countries except Malaysia. Testing Granger causality within Markov switching framework to indentify the causal linkages between three indicators of financial market is

**\*Corresponding author: Dr. Puja Archana Sahu**  
AMC College, Bangalore, India.

another interesting feature of this paper. Other papers on this issue include Subramanian (1989). Given the continuous economic fluctuations, Pakistan offers an interesting case to be analyzed. Looking at Pakistan's perspective, there is limited research available investigating the interlink ages and volatility spill over within Pakistan's financial markets. Khalid and Rajaguru (2007), support a link between exchange rates, stock prices and interest rates. The empirical evidence in Qayyum and Kemal (2006) suggests that volatility spill over takes place From stock market to the foreign exchange market but not the vice-versa. Volatility changes as a result of political events have not been researched in reference to Pakistan or for the region. Given a variety of shocks influencing Pakistan's economy since May 1998, it is imperative to explore how these shocks influence the economy and the financial market, in particular.

### Objectives of the study

- (i) To find out the systematic risk & unsystematic risk of each stock.
- (ii) To find out the changes in the country's politics effects on the stock market.

### RESEARCH METHODOLOGY

In order to examine the above mentioned objectives, two sectors were chosen i.e Banking & Infrastructure out of which a sample of two companies were selected. The research design used in this study is descriptive & causal research design. In this study, only secondary data was utilised for the purpose of the study. The secondary data is collected from journals, text books and through internet.

### Analysis and Interpretation

Table – 1 states the returns of the individual scrip of infrastructure & banking industry. In the month of December two significant political events occurred. One is on Dec.8 when Arvind kejriwal won Majority in Delhi elections. There was a positive impact of the news on the stock market which resulted in a jump in the returns from 0.00185 to 0.01571. The second political news which created a ripple in the market was the watered down version of Jan Lokpal bill was passed in the Parliament on Jan 18. This also created a positive impact on the stock market which rose to 0.01202 from 0.0023.

In the 2<sup>nd</sup> table mean is calculated from the individual returns which indicates the average returns that the investor will receive from the sample of respective industries. The average returns of PNB are the highest i.e 0.0059, closely followed by BHEL at 0.005. The lowest average return is from SBI i.e -0.001. through this table, standard deviation of returns implying the inconsistency of the returns is highest from BHEL at 0.024 which is followed by PNB, L&T and SBI. There is a positive correlation between returns of the individual scrip with BSE Sensex. There is highest positive significance of correlation of SBI stock whereas the lowest was clocked by BHEL. The Alpha of the stock records the abnormal rate of return of a security in excess of what would be predicted by CAPM. The highest Alpha of a stock is from PNB at 0.0048 then BHEL at 0.004, L&T at -0.001 & lastly SBI at -0.002. The beta of the stock indicates systematic risk which is highest in L&T closely followed PNB, BHEL & SBI. All the stocks in this observation with beta greater than 1 indicates that the security's price will be more volatile than the market. L&T is 92% more volatile than the market.

Table 1.

DATE	BHEL	Returns	L&T	Returns	SBI	Returns	PNB	Returns	SENSEX	Returns
02-Dec-13	159.7		1,070.05		1,822.65		555.9		20,898.01	
03-Dec-13	164	0.027	1,054.65	-0.014	1,814.35	-0.005	556.6	0.0012	20,854.92	-0.0021
04-Dec-13	164.6	0.004	1,039.25	-0.015	1,819.70	0.003	568.8	0.022	20,708.71	-0.007
05-Dec-13	171.4	0.041	1,086.45	0.0454	1,853.70	0.019	582.2	0.0235	20,957.81	0.01203
06-Dec-13	171.4	3E-04	1,096.40	0.0092	1,861.80	0.004	596.9	0.0253	20,996.53	0.00185
09-Dec-13	171.6	0.001	1,146.90	0.0461	1,889.20	0.015	611.2	0.024	21,326.42	0.01571
10-Dec-13	165.6	-0.035	1,100.40	-0.041	1,844.55	-0.024	606.1	-0.008	21,255.26	-0.0033
11-Dec-13	162.1	-0.021	1,080.60	-0.018	1,796.70	-0.026	596.2	-0.016	21,171.41	-0.0039
12-Dec-13	161.3	-0.005	1,065.05	-0.014	1,778.40	-0.01	586.2	-0.017	20,925.61	-0.0116
13-Dec-13	154.6	-0.041	1,049.95	-0.014	1,743.55	-0.02	565.1	-0.036	20,715.58	-0.01
16-Dec-13	154.9	0.002	1,058.35	0.008	1,732.85	-0.006	565.3	0.0003	20,659.52	-0.0027
17-Dec-13	154.4	-0.004	1,064.50	0.0058	1,718.95	-0.008	565.8	0.001	20,612.14	-0.0023
18-Dec-13	163.6	0.06	1,092.70	0.0265	1,764.90	0.027	589.7	0.0422	20,859.86	0.01202
19-Dec-13	162.6	-0.006	1,060.95	-0.029	1,730.45	-0.02	579.9	-0.017	20,708.62	-0.0073
20-Dec-13	166.2	0.022	1,061.10	0.0001	1,751.85	0.012	594.5	0.0252	21,079.72	0.01792
23-Dec-13	169.2	0.018	1,069.00	0.0074	1,757.55	0.003	624.4	0.0502	21,101.03	0.00101
24-Dec-13	172.9	0.022	1,076.00	0.0065	1,759.15	9E-04	634.9	0.0169	21,032.71	-0.0032
25-Dec-13	172.9	0	1,076.00	0	1,759.15	0	634.9	0	21,032.71	0
26-Dec-13	174.8	0.011	1,072.70	-0.003	1,754.20	-0.003	627.4	-0.012	21,074.59	0.00199
27-Dec-13	173.3	-0.009	1,077.95	0.0049	1,769.90	0.009	635.1	0.0123	21,193.58	0.00565
30-Dec-13	179.4	0.035	1,064.00	-0.013	1,763.40	-0.004	625.3	-0.016	21,143.01	-0.0024
31-Dec-13	176.9	-0.014	1,070.25	0.0059	1,765.50	0.001	626.5	0.0019	21,170.68	0.00131

Source : Yahoo Finance

Table 2.

Particulars	Infrastructure industry		Banking industry		Market
	BHEL	LARSEN & TUBRO	SBI	PNB	BSE SENSEX
MEAN	0.005	0.0002	-0.001	0.0059	0.00065
STANDARD DEVIATION	0.024	0.0213	0.014	0.0218	0.00802
CORRELATION	0.513	0.7254	0.793	0.6514	
ALPHA	0.004	-0.001	-0.002	0.0048	
BETA	1.56	1.9224	1.354	1.7661	

## Conclusion

For the month of December, average returns given by the infrastructure industry are more than the banking industry. Though the returns were more in Infrastructure industry but the returns were more consistent in banking sector i.e the returns are less volatile. The comparative analysis shows that the positive relation between stock & market is more in banking industry as compared to the infrastructure industry. The expected returns compared to actual returns i.e Alpha is counterbalanced by the samples selected in both the industries. Hence, the industries are on the same platform as regards to Alpha. The uncontrollable risk (Beta) is more prominent in Infrastructure industry which states that it is more affected by outside sources

## REFERENCES

- Aggrawal, Raj and NyoNyo A. Kyaw (2005), Equity market integration in the NAFTA region: evidence from unit root and co integration tests, *International Review of Financial Analysis*, 14(4),393-406.
- Aggarwal, Reena, Carla Inclan, and Ricardo Leal (1999), Volatility in emerging stock markets, *Journal of Financial and Quantitative Analysis*, 34 (1), March, 22-55.
- Bailey, Warren and Y. Peter Chung (1995), Exchange rate fluctuations, political risk, and stock returns: some evidence from an emerging market, *Journal of Financial and Quantitative Analysis*, 30 (4), December, 541-61.
- Beaulieu, Marie-Claude, Jean-Claude Cosset, and Naceur Essaddam (2005), The impact of political risk on the volatility of sock returns: the case of Canada, *Journal of International Business Studies*, 36
- Fong, Wai Mun and Seng Kee Koh (2002), The political economy of volatility dynamics in the Hong Kong market, *Asia-Pacific Financial Markets*, vol 9, numbers 3-4, September, 259-282.
- Fukuda, Shin-ichi and Takashi Kano (1997), International price linkages within a region: the case of East Asia, *Journal of the Japanese and International Economies*, 11(4), December, 643-666.
- Khalid, Ahmed M. and Gulasekaran Rajaguru (2007), Financial Market Contagion, Evidence from the Asian financial crisis using a multivariate GARCH approach, Globalisation and Development Centre, Working Paper no. 3, Bond University, Australia, May.
- Khalid, Ahmed M. and Gulasekaran Rajaguru (2005), Financial market linkages in South Asia: Evidence using a multivariate GARCH Model, *Pakistan Development Review*, 43:4, Winter 2004, 585-603 (This issue was officially published in December 2005).
- Khalid, Ahmed M. and Masahiro Kawai (2003), Was financial market contagion the source of economic crisis in Asia? Evidence using a multivariate VAR model, *Journal of Asian Economics*, 14(1), February, 133-159.
- Kim, Harold Y. and Jianping Mei (1999), Political risk and stock returns: the case of Hong Kong, Stanford University Working Paper Series, September.
- Kim, Sangbae and Francin In (2002), The influence of foreign stock markets and macroeconomic news announcements on Australian financial markets, *Pacific-Basin Finance Journal*, 10(5), November, 571-582.
- Pan, Ming-Shiun, Robert Chi-Wing Fok, and Y. Angela Liu (2006), Dynamic linkages between exchange rates and stock prices: evidence from East Asian markets, *International Review of Economics and Finance*, forthcoming.
- Qayyum, Abdul and A.R. Kemal (2006), Volatility spill over between stock market and forex market in Pakistan, PIDE Seminar, October.
- Subramanian, S. (1989), The impact of political and economic events on stock price behaviour, <http://www.iimahd.ernet.in/~impandey/subra.htm>  
<http://www.yahoofinance.com/>

\*\*\*\*\*