

**MARKET REACTION TO POLITICAL AND NATIONAL BUDGET
ANNOUNCEMENTS IN THE PERIOD 1981—2011: THE MALAYSIAN
EVIDENCE**

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**Market Reaction to Political and National Budget Announcements in the Period
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ABSTRACT

Political and national budget announcements have been widely believed to be able to affect the stock market movement. The purpose of this research project is to examine empirically whether the political and national budget announcements create any significant impact to the Malaysian stock market despite numerous anecdotal claims that hint at this possibility. Through the analysis, this research further intends to justify whether the Efficient Market Hypothesis (EMH) is supported within Malaysian context, i.e. whether the stock price is efficient in reflecting information content in the announcements. In addition, the stock market behavior during the period of study, namely overreaction and momentum, can also be determined from the analysis results. Event study methodology has been employed as the analysis technique of this study. 38 political announcements from the past 30 years have been selected arbitrarily together with 15 budget announcements starting from 1998. An 11-day event window has been formed around each announcement date to study the significance of abnormal return. The study results show that the Malaysian stock market generally reacts significantly to both positive and negative political announcements and only positive budget announcements *in general*. The market, however, does not react to certain types of political events. Besides, the stock market behavior supports one of the following theories—Efficient Market Hypothesis, Uncertain Information Hypothesis, Overreaction Hypothesis and Momentum Hypothesis—based on the type of announcements released.

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LIST OF SYMBOLS AND ABBREVIATIONS

AAR	Average Abnormal Return
ACAR	Average Cumulative Abnormal Return
APT	Arbitrage Pricing Theory
AR	Abnormal Return
ASE	Athens Stock Exchange
BN	Barisan Nasional
CAPM	Capital Asset Pricing Model
CAR	Cumulative Abnormal Return
CPI	Consumer Price Index
DAP	Democratic Action Party
DCF	Discounted Cash Flow
DPM	Deputy Prime Minister
ECI	Employment Cost Index
EMH	Efficient Market Hypothesis
GARCH	Generalized Autoregressive Conditional Heteroskedasticity
GDP	Gross Domestic Product
GLC	Government-linked Companies
GNP	Gross National Product
ISA	Internal Security Act
KLCI	Kuala Lumpur Composite Index
KLSE	Kuala Lumpur Stock Exchange
LSE	London Stock Exchange
MCA	Malaysian Chinese Association
NAPM	National Association of Purchasing Management
PAS	Pan-Malaysian Islamic Party
PKR	Parti Keadilan Rakyat
PM	Prime Minister
STI	Singapore Stock Market Index
UMNO	United Malays National Organization
UIH	Uncertain Information Hypothesis
VARMA	Vector Autoregressive Moving Average
VECM	Vector error correction model