CHAPTER 5:

RESULTS

5.1   Introduction

This chapter is going to discuss on the findings from the research on the market reaction to political and national budget announcements.   Does the Malaysian stock market concern about those announcements? If the information content does create the impact to the market, how efficient is the Malaysian stock market in reacting to the news? Does the market behave efficiently or overreact / underreact to that information?

This chapter is organized as follows: Section 5.2 gives an overview of the characteristics of the KLCI return over the past three decades.   The analysis begins with the KLCI reaction to overall political and national budget announcements in Section 5.3 and Section 5.4. Section 5.5 further distinguishes the political events into different types and studies the impact of each type of events on the stock market.   Section 5.6 is briefly comparing between market reaction to political announcement and its reaction to national budget announcement.   Section 5.7 and Section 5.8 looks at how market reacts to each specific individual political and budget event respectively.   Finally, a summary of the research results is presented in Section 5.9.

## 5.2   Overview of the KLCI return from 1980—2011

Figures 5.1a and 5.1b shows the market returns structure of KLCI from 1980 until the beginning of 2012.   As the figures show, in general the returns constantly fluctuate

between -5% and 5% with a few exceptions where the market experienced extraordinary volatility that caused the return to either soar or plunge tremendously.

Figure 5.1a shows market returns with the 38 political events identified that on September 7, 1998, three days followed the announcement of the removal of the then Deputy Prime Minister Anwar Ibrahim, the KLCI went up from 363.44 points to 445.06, an increase of 22.45% before it dramatically fell 21.5% to 349.56 points the next day on 8 September. A similar characteristic can also be found during October 1987 when the government carried "Operation Lalang" to crack down opposition leaders and social activists. Five days before the action started, the market plunged by 15.7% to 302.31 points before it rose again by about 11.7% to 337.67 points. From the relationship that we found by matching the events and stock index, we would possibly expect a significant relationship exists between the market reaction and political announcements.

Figure 5.1b shows the market return with budget announcement day identified. From the figure, we would expect that the budget announcements have relatively less impact on the market as the return of KLCI on those announcement days are scattered close to zero by visual inspection. Table 5.2 reports the descriptive daily return statistics for KLCI for the full sample period from January 2, 1980 to December 30, 2011 (Panel A) and two subperiods. The first subperiod covers January 1980 to December 1995 (Panel B) and the second subperiod covers January 1996 to December 2011 (Panel C)

**Figure 5.1a: KLCI market return from 1 January 1980 to 30 December2011 (with political events day identified)**
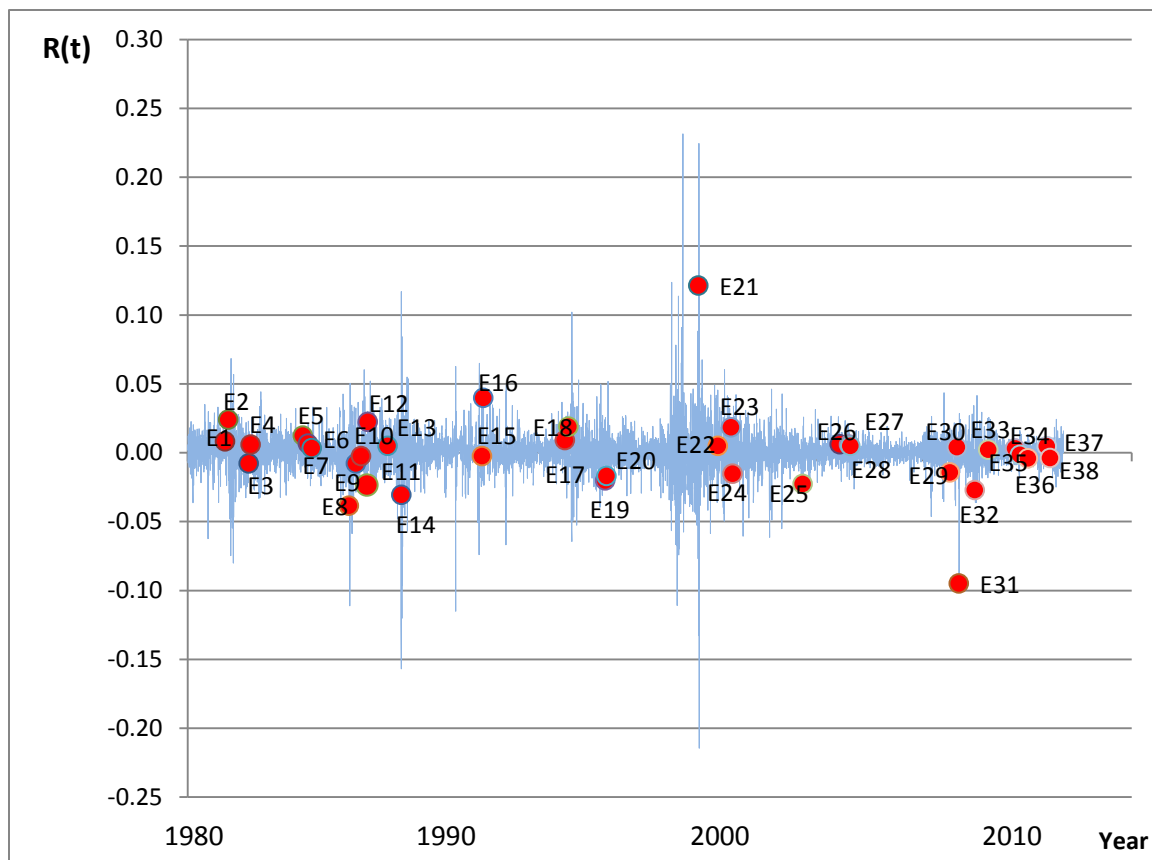
Legend:

E1	Hussein Onn announced Mahathir to be the 4th PM	15/5/1981
E2	The 36th UMNO Election	26/6/1981
E3	Announcement of the 6th National Election, 1982	29/3/1982
E4	The 6th National Election—announcement of results	22/4/1982
E5	MCA Crisis	19/3/1984
E6	UMNO election 1984	25/5/1984
E7	Major Cabinet Reshuffle	14/7/1984
E8	MCA Party election 1985	24/11/1985
E9	Musa Hitam resigned as DPM	26/2/1986
E10	Ghafar Baba appointed as DPM	7/5/1986
E11	Announcement of the 7th National Election, 1986	19/7/1986
E12	The 7th National Election, 1986—Announcement of results	3/8/1986
E13	UMNO Election 1987	24/4/1987
E14	Operation Lalang	27/10/1987
E15	Announcement of The 8th National Election, 1990	4/10/1990
E16	The 8th National Election—announcement of results	21/10/1990
E17	Ghafar Baba officially resigned as DMP	15/10/1993

E18	Anwar Ibrahim officially appointed as DPM	1/12/1993
E19	Announcement of the 9th National Election, 1995	6/4/1995
E20	The 9th National Election, 1995—results announcement	25/4/1995
E21	Removal of the deputy prime minister, Dato Sri Anwar Ibrahim	2/9/1998
E22	Cabinet reshuffle 1999	20/5/1999
E23	Announcement of the 10th National Election, 1999	10/11/1999
E24	The 10th National Election, 1999—announcement of results	29/11/1999
E25	Announcement of resignation of the 4th prime minister, Tun Dr. Mahathir Mohammad	22 /6/ 2002
E26	Abdullah Ahmad Badawi became the 5th PM of Malaysia	31/10/2003
E27	Announcement of The 11th National Election, 2004	4/3/2004
E28	The 11th National Election, 2004—Results announcement	21/3/2004
E29	Bersih 1.0 rally	10/11/2007
E30	Announcement of the 12th National Election, 2008	13/2/2008
E31	The 12th National Election, 2008—announcement of results	8/3/2008
E32	Announcement of Resignation of the 5th prime minister, Dato Sri Abdullah Ahmad Badawi	8 /10/2008
E33	Najib became the 5th prime minister, Dato Sri Abdullah Ahmad Badawi	3/4/2009
E34	MCA Election 2010	28/3/2010
E35	Reshuffle of Cabinet	1/6/2010
E36	1Malaysia programme	16/9/2010
E37	Announcement of Bersih 2.0 Rally	26/5/2011
E38	Bersih 2.0 Rally "Walk for democracy"	9/7/2011

Figure 5.1b: KLCI market return from 1 January 1980 to 30 December 2011 (with National Budget announcement day identified)
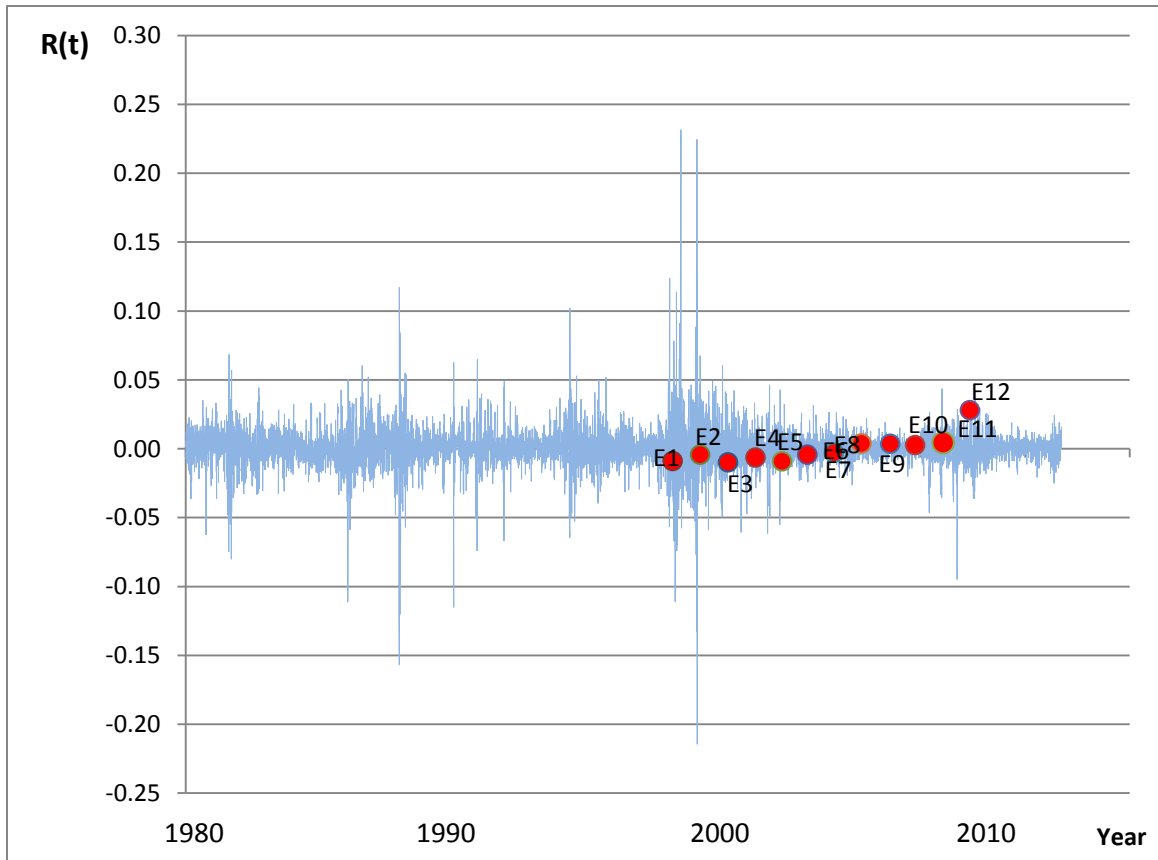
Legend:

E1	Announcement of National Budget 1998	17 /10/1997
E2	Announcement of National Budget 1998	23/10/ 1998
E3	Announcement of National Budget 1998	29/10/ 1999
E4	Announcement of National Budget 1998	27/10/ 2000
E5	Announcement of National Budget 1998	19/10/ 2001
E6	Announcement of National Budget 1998	20/9/ 2002
E7	Announcement of National Budget 1998	12/9/ 2003
E8	Announcement of National Budget 1998	10/9/ 2004
E9	Announcement of National Budget 1998	30/9/ 2005
E10	Announcement of National Budget 1998	1/9/ 2006
E11	Announcement of National Budget 1998	7/9/ 2007
E12	Announcement of National Budget 1998	29/8/ 2008
E13	Announcement of National Budget 1998	23/10/ 2009
E14	Announcement of National Budget 1998	15/10/ 2010
E15	Announcement of National Budget 1998	7/10/ 2011

Table 5.1: Descriptive daily return statistics of KLCI (1980—2012)

	Panel A: Full Period (January 1980—Decemebr 2011)	Panel B: First subperiod (January 1980—December 1995	Panel C: Second subperiod (January 1996—December 2011)
Number of observations	8344	4171	4173
Mean return	0.00034	0.00047	0.00020
Standard Deviations	0.01396	0.01359	0.01433
Min	-0.21458	-0.15685	-0.21458
Max	0.23143	0.11697	0.23143

Note that by visual inspection of the results in Table 5.1, there is slight difference on the mean return for different panel. The mean return is the highest during the first half of the full sample period which stated at 0.047% while the average return of KLCI for the next sixteen years is only 0.020%. On average, the mean return over the past thirty two years is 0.034%. The second subperiod is slightly more volatile as compare to the previous period as it shows a wider range (min: -0.21; max: 0.23) and higher standard deviation at 1.43% as compare to 1.36% from the first half period.

5.3   KLCI reaction to overall political and budget announcement

Next, we examine the market reaction, represented by the abnormal return, around events announcement day by using an 11-days event windows. The results are tabulated in Table 5.2.

Table 5.2: KLCI reaction to political and budget announcementon the day of announcement (based on 11-day event windows)

Panel A: Political announcement					
Positive announcement (21)			**Negative announcement (17)**		
Day	**Mean reaction[a] (%)** (11-day event window)	**t-statistics**	**Day**	**Mean reaction[a] (%)** (11-day event window)	**t-statistics**
-5	0.03	(0.09)	-5	**-0.85**	**(-2.49)***
-4	-0.07	(-0.25)	-4	0.036	(0.11)
-3	-0.16	(-0.60)	-3	0.53	(1.55)
-2	0.31	(1.14)	-2	-0.41	(-1.19)
-1	-0.08	(-0.30)	-1	-0.54	(-1.57)
0	**1.54**	**(5.69)***	0	**-1.93**	**(-5.63)***
1	0.31	(1.15)	1	**-0.68**	**(-1.99)***
2	**0.59**	**(2.16)***	2	0.30	(0.86)
3	**0.96**	**(3.52)***	3	0.28	(0.82)
4	**-1.25**	**(-4.61)***	4	0.20	(0.59)
5	0.43	(1.57)	5	-0.16	(-0.46)
Panel B: National Budget announcement					
Positive announcement (7)			**Negative announcement (8)**		
Day	**Mean reaction[a] (%)** (11-day event window)	**t-statistics**	**Day**	**Mean reaction[a] (%)** (11-day event window)	**t-statistics**
-5	0.39	(1.36)	-5	0.41	(0.42)
-4	-0.05	(-0.17)	-4	0.15	(0.16)
-3	0.08	(0.27)	-3	0.74	(0.75)
-2	0.43	(1.52)	-2	-0.17	(-0.17)
-1	0.25	(0.88)	-1	0.28	(0.28)
0	**0.83**	**(2.92)***	0	-0.54	(-0.55)
1	-0.00	(-0.00)	1	-1.16	(-1.18)
2	-0.08	(-0.28)	2	-0.61	(-0.62)
3	-0.04	(-0.13)	3	-0.57	(-0.58)
4	0.18	(0.62)	4	-0.65	(-0.66)
5	-0.04	(-0.13)	5	-0.02	(-0.02)

[a]Refers to mean abnormal return (AAR), i.e. the average abnormal return on the day of the announcement. T-statistics appear in the parenthesis

* denotes statistical significance at the 5% level

Panel A reports results for KLCI reaction from political announcements. There are altogether 21 positive political announcements and 17 negative political announcements being observed from 1980 to the beginning of 2012.[1] Panel B states the results for KLCI reaction from national budget announcements. Over the past 15 years, there are 7 market-favorable budget announcements and 8 market-unfavorable announcements.[2] As shown by the results, the mean abnormal returnsof KLCI on the day of a political announcement (AAR_0) are all significant at 5% level of significance. For positive political announcement, the mean abnormal return is 1.54% on the day of the announcement. However, we also observed significant AR on day 2, 3 and 4 which suggest that market is inefficient as information seems to take a few days to fully incorporate into the stock price rather than on the day of the announcement (Spyrou, 2007). For negative political announcement, there is also a significant AR on day -5. That gives some evidence that leakage of information might have happened prior to the announcement but then the impact of leakages quickly disappeared the next few days before the announcement day.

The impact of national budget on the stock market seems far lesser than the political news as this can be justified from the only significant AR on the day of a positive budget announcement. This shows that market is efficient in the sense that all information incorporated to the stock price within one day and no further impact of this

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[1] According to Białkowski et al. (2008) and Spyrou et al. (2011) a positive (negative) event is said to occur when the market index return is above (below) two standard deviations the average daily index computed over a pre-determined period. Here in this study, an announcement is considered positive (negative) when the index return is positive (negative) on the day of the announcement.

[2] Similar to political announcement, market-favorable (unfavorable) announcement occurs when it is able to move the index up (down) on the day of the announcement.

announcement on future returns. Furthermore, the results also show that the market seems to have no concern on negative budget announcements as none of the ARs is significant.

5.4 The cumulative market reaction to overall political and budget announcements

Figure 5.2—5.5 shows the average cumulative abnormal return before and after political and budget announcements (cumulated from day -5 to day 5). By visual inspection, the market reactions to political announcements are basically consistent with the UIH (see figures 5.2 and 5.4). Figure 5.2 shows that positive political announcements are followed by positive abnormal return for up to day 3. The computation of the statistics shows that, for the 21 positive political announcements, the ACAR on the day of the announcement is about 1.57%. These ACARs gradually reach 3.42% by day 3. On the other hand, figure 5.4 shows that when negative political news arrives, the ACARs tend to worsen off and only improves after the second day of the announcement after the situation is more certain. The ACAR on day 0 reached -3.16% and further reduced to -3.85% the following day but soon the reaction gets less aggressive when ACAR started to increased gradually from day 3 onwards. This is basically supporting the UIH and also suggests an overreaction of market to negative political news as positive abnormal returns follow a negative announcement (Spyrou et al. 2007).

Figure 5.3 demonstrates how the ACARs react for positive national budget announcement. For positive budget announcement, the market reacts positively to the

news through a drastic increase in ACAR on the announcement day. However, ACAR stays almost at the same level the following days which implies that market is probably efficient in reflecting positive budget announcements. Lastly, figure 5.5 shows that, although not significant, the ACAR on the day following the announcement is -0.29% and it further deteriorates to -2.41% on day 5. Here we can argue that there probably exists market momentum for negative budget announcements.
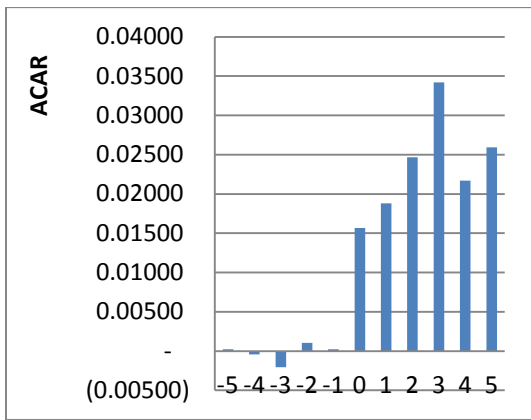
Figure 5.2: Reaction to positive political announcement
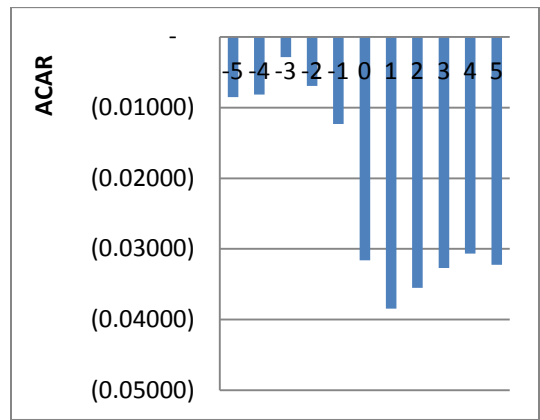
Figure 5.4: Reaction to negative political announcement
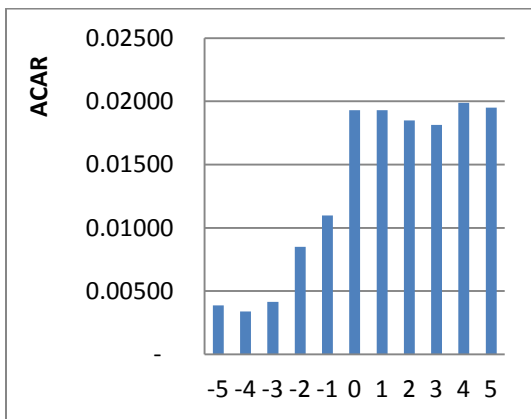
Figure 5.3: Reaction to positive budget announcement
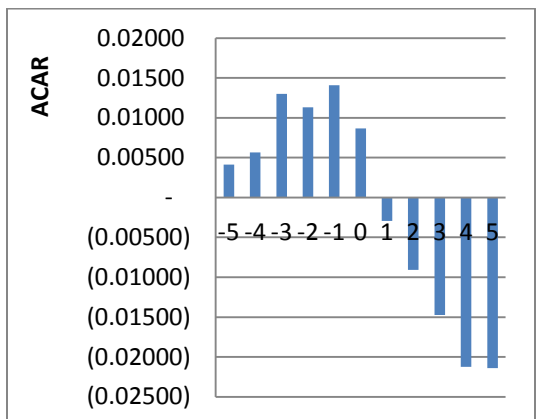
Figure 5.5: Reaction to negative budget announcement

Another interesting observation from the figures above is that market seems to react more aggressively to negative political news as compare to negative budget announcement. In the case of political announcement, the ACARs after the announcements are all below -3% whereas in the case of budget announcement, ACARs range between 0% and -2.14%. This probably shows that the political announcement has greater negative impact on the firms as compare to budget announcement.

Table 5.3 and 5.4 provides a summary of the ACARs over the event study window from day -5 to day 5. Table 5.3 Panel A shows the ACARs following positive announcements. On average, positive political announcements are followed by positive abnormal returns, which are reflected in increasing ACARs from day 0 to day 3. All ACARs are significant at 5% level. Thus, the UIH or momentum effect does exist in this case. Table 5.3 Panel B reports the ACARs following negative political announcements. On average, the returns decline after a negative political announcement and the ACARs of stocks after the negative announcements are all significant at 5% level. The ACAR on day 0 is -3.16% and further deteriorate to -3.85% on day 1 but soon started to improve on day 2 and thereafter, thus provide evidence of market overreaction / UIH to negative political news.

As for positive budget announcement, Table 5.4 Panel A shows that the ACARs are all significant at 5% from day 0 to day 5. However, the trend of the ACARs after announcement is almost level and that there is no significant increase or decrease in abnormal return, therefore there is no proof of market overreaction or momentum in this context. Table 5.4 Panel B reports the ACARs following negative budget

announcements.   On average, the returns decline after the negative budget

announcements. Surprisingly, there is no significant AR or ACAR found for the case of

negative budget announcement. This could probably suggest that market does not react

to negative budget announcement.

In general, all ACARs after the announcement day are significant at the 5% level except

for negative budget announcement, thus gives the evidence of market inefficiency in

response to political and budget announcements.

Table 5.3: Cumulative ARs following a political announcement

ACAR[a]	%	t-value	ACAR[a]	%	t-value
Panel A: Cumulative abnormal return following a positive political news			*Panel B: Cumulative abnormal return following a negative political news*		
AAR$_{-5}$	0.03	(0.09)	AAR$_{-5}$	-0.85	**(-2.49)***
ACAR$_{-4}$	-0.04	(-0.11)	ACAR$_{-4}$	-0.82	(-1.69)
ACAR$_{-3}$	-0.20	(-0.43)	ACAR$_{-3}$	-0.29	(-0.48)
ACAR$_{-2}$	0.11	(0.19)	ACAR$_{-2}$	-0.69	(-1.01)
ACAR$_{-1}$	0.02	(0.04)	ACAR$_{-1}$	-1.23	(-1.61)
ACAR$_0$	**1.57**	**(2.36)***	ACAR$_0$	**-3.16**	**(-3.77)***
ACAR$_1$	**1.88**	**(2.62)***	ACAR$_1$	**-3.85**	**(-4.24)***
ACAR$_2$	**2.47**	**(3.22)***	ACAR$_2$	**-3.55**	**(-3.66)***
ACAR$_3$	**3.42**	**(4.20)***	ACAR$_3$	**-3.27**	**(-3.18)***
ACAR$_4$	**2.17**	**(2.53)***	ACAR$_4$	**-3.01**	**(-2.83)***
ACAR$_5$	**2.60**	**(2.89)***	ACAR$_5$	**-3.22**	**(-2.84)***

<u>*Notes*</u>: [a]The CARs are derived from the formula $CAR_{it}=\sum_{k=-5}^{t} AR_{it}$. The ACARs are determined as $ACAR_{it}=(1/N) = \sum_{n=1}^{N} CAR_{it}$
The t-statistic is $t=ACAR/ (\sigma/\sqrt{N})$
*Statistical significant at the 5% level

Table 5.4: Cumulative ARs following a national budget announcement

ACAR[a]	%	t-value	ACAR[a]	%	t-value
Panel A: Cumulative abnormal return following a positive budget announcement			*Panel B: Cumulative abnormal return following a negative budget announcement*		
AAR_{-5}	0.39	(1.36)	AAR_{-5}	0.41	(0.42)
$ACAR_{-4}$	0.34	(0.84)	$ACAR_{-4}$	0.57	(0.41)
$ACAR_{-3}$	0.42	(0.84)	$ACAR_{-3}$	1.30	(0.76)
$ACAR_{-2}$	0.85	(1.49)	$ACAR_{-2}$	1.13	(0.57)
$ACAR_{-1}$	1.10	(1.73)	$ACAR_{-1}$	1.41	(0.64)
$ACAR_0$	**1.93**	**(2.77)***	$ACAR_0$	0.87	(0.36)
$ACAR_1$	**1.93**	**(2.56)***	$ACAR_1$	-0.29	(-0.11)
$ACAR_2$	**1.85**	**(2.29)***	$ACAR_2$	-0.91	(-0.33)
$ACAR_3$	**1.81**	**(2.12)***	$ACAR_3$	-1.48	(-0.50)
$ACAR_4$	**1.99**	**(2.21)***	$ACAR_4$	-2.12	(-0.68)
$ACAR_5$	**1.95**	**(2.06)***	$ACAR_5$	-2.14	(-0.66)

Notes: [a]The CARs are derived from the formula $CAR_{it}=\sum_{k=-5}^{t} AR_{it}$. The ACARs are determined as $ACAR_{it}=(1/N) = \sum_{n=1}^{N} CAR_{it}$
The t-statistic is $t=ACAR/ (\sigma/\sqrt{N})$
*Statistical significant at the 5% level

In summary, the market inefficiency is detected during the announcement of political events as the information seems to take a few days after the announcement day to be incorporated into the share price and this creates significant abnormal return on days following the announcement day. Furthermore, leakage of information is also observed in the case of negative political announcement. However, from the test results, market is efficient when reflecting budget announcement as there is no other significant ARs beside the announcement day, suggesting that the information is incorporated into the stock price on the announcement day itself and that no leakage of information has been found. Furthermore, negative budget seems to have no impact on the market as none of the ARs are significant.

To further justify the results above, tests on ACARs are conducted. This part of the results show that for positive political announcement, the ACAR are all significant after day 0 and that it is increasing up to day 3, thus giving evidence of UIH / market momentum effect. A market overreaction was detected for negative political announcements as the ACAR slumps to -3.80% 1 day after the announcement but soon recover for the next few days. As for positive budget announcements, it is interesting to find that although the market reacts efficiently on the announcement day and no significant ARs is found, the cumulative effect of the announcement is significantly reflected on the ACARs for the following days. However, the ACARs stay at almost the same level and therefore suggest that the market is probably efficient. As for negative budget announcement, although by visual inspection, there is a sign of market momentum as the ACAR continues to deteriorate over time, however, the ACARs are not statistically significant.

From the results above, we can also conclude that the market is not efficient at semi-strong level. The result is consistent with Ali et al. (2010) which examine market efficiency from a long term perspectives.

Table 5.5 summarizes the test conclusions of overall impact of political and budget announcement on market reaction.

Table 5.5: Test conclusions of overall impact of political and budget announcement on market reaction

	Market reaction			Market behavior
	$E(AR_t)>0$	$E(CAR_t)>0$	Leakage of information	
Positive political announcement	Yes	Yes	No	Market momentum / UIH
Negative political announcement	Yes	Yes	Yes	Overreaction / UIH
Positive budget announcement	Yes (on day 0)	Yes	No	Efficient
Negative budget announcement	No	No	No	Insignificant to conclude (a tendency of market momentum)

5.5 The market reaction to specific sets of political events

Overall, the results suggest that market does react to some particular types of political events. In general, extraordinary events create the most significant impact on market reaction. Whilst changing of administration leadership and cabinet reshuffle cause only minor repercussions to the market, there is no evidence of effect of dissolution of parliament, party elections and General elections on the stock market as AARs and ACARs are not significant during the period of study.

Dissolutions of the Parliament

The observation that dissolutions of the Parliament have no impact on the stock market in Malaysia is perhaps no big surprise. In Malaysia, dissolution of the Parliament is just a protocol leading to the next election as stated in Malaysian Constitution. Though in this study, most of the election took place within a month after the announcement of dissolution of the Parliament, the legislation allows the election to be held within 60 days as soon as the Parliament dissolved.

As Table 5.6 shows, the dissolutions of the Parliament do not cause significant impact to the stock market as none of the ARs or CARs are statistically significant. Since the rumors of election has been always anticipated long before the formal announcement, the announcement of dissolution of the Parliament carries not much further relevant information that could possibly change people's expectation on the stock market. The cumulative abnormal returns fluctuate between positive and negative figures before the announcement and the signs of cumulative return all turn to negative after the announcement of dissolution. This result is similar to Nimkhunthod (2007) which argues that though results are all not significant, the negative view could be due to worries before the next election (Nimkhuntod, 2007)

Table 5.6: Average abnormal returns and average cumulative abnormal returns for an event study of the impact of dissolution announcements

Event day	AAR	t-stat	ACAR	t-stat
-5	0.00256	0.44	0.00256	0.44
-4	-0.00371	-0.63	-0.00115	-0.14
-3	-0.00445	-0.76	-0.00560	-0.55
-2	0.00729	1.25	0.00169	0.14
-1	-0.00311	-0.53	-0.00142	-0.11
0	-0.00368	-0.63	-0.00511	-0.36
1	0.00116	0.20	-0.00395	-0.26
2	-0.00340	-0.58	-0.00735	-0.44
3	-0.00002	0.00	-0.00737	-0.42
4	-0.00003	0.00	-0.00739	-0.40
5	-0.00050	-0.09	-0.00790	-0.41

Figure 5.6: Plot for average cumulative abnormal returns for dissolution announcements
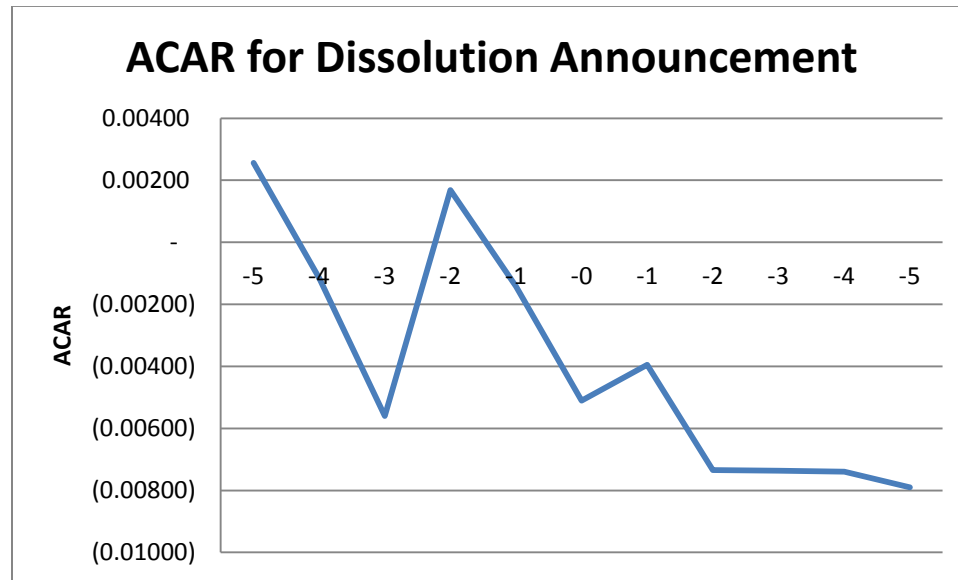
General elections[3]

The election is perhaps not a totally unanticipated event. The date is usually fixed and many times the results from the election can always be predicted (Nimkhunthod 2007). In Malaysia, Barisan National has been the ruling coalition and has won General Elections since independence.[4] Thus, the election is just a confirmation on the formation of a new government by the same parties which implement no different policies that could influence the economical performance of the country (Nimkhuntod, 2007).

Although not significant, the signs of ACARs are all positive in the event window of study. In fact, the market reacts positively to the election prior to the announcement of results. The ACARs increased steadily three days before the event day and stayed rather

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3 The 2008 General Election was excluded here and was analyzed under the Extraordinary Events due to its "extraordinary" outcome.

4 However, in the third General Election in 1969, BN did not secure two-thirds of the total votes for the first time (Nohlen et al., 2001). The second time BN lost its two-third majority votes was during the 12th General Election in 2008, which was known as the "Political Tsunami" in Malaysia. This event, because of its extraordinary outcome, has been analyzed under the extraordinary events section instead.

consistently between 2.17% and 2.64% except for day 4 when the stock ACAR encountered a slight fall to1.8%. This is also an evidence of market efficiency in its semi-strong form according to definition mentioned in previous section.

Table 5.7: Average abnormal returns and average cumulative abnormal returns for an event study of the impact of General Elections announcements

Event day	AAR	t-stat	ACAR	t-stat
-5	0.00555	0.89	0.00555	0.89
-4	0.00112	0.18	0.00667	0.76
-3	-0.00081	-0.13	0.00586	0.54
-2	0.00452	0.72	0.01038	0.83
-1	0.00649	1.04	0.01687	1.21
0	0.00688	1.10	0.02375	1.55
1	-0.00066	-0.11	0.02308	1.40
2	0.00335	0.54	0.02644	1.50
3	-0.00349	-0.56	0.02295	1.22
4	-0.00496	-0.79	0.01799	0.91
5	0.00367	0.59	0.02166	1.05

Figure 5.7: Plot for average cumulative abnormal returns for General Elections results announcements

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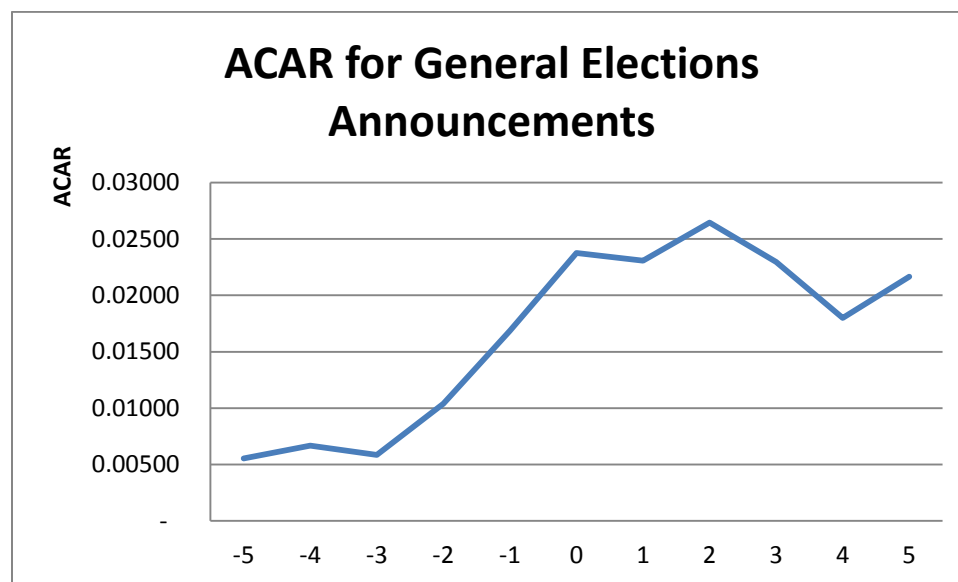
Changing of administration leadership

The changing of administration leadership in this research project solely focuses on the succession of Prime Minister and Deputy Prime Minister in Malaysia since 1981. Again, none of the AARs and ACARs is statistically significant prior to the actual event day, which means that there is no evidence of leakage of such information beforehand. This is because the information on the shifting of premiership was perhaps made known to the public long before the official announcement. However, we did notice that there is a significant AAR of 0.95% on day 4 after the announcement.

Despite the fact that the information is being publicized, we can still spot some evidence of overreaction behavior of the market by looking at the movement of AARs and ACARs. Though insignificant, the ACARs start descending one day prior to the official announcement from 1.13% to 0.2% before the stock picks up again on day 3 and rise sharply to state 1.47% on day 4.

Table 5.8: Average abnormal returns and average cumulative abnormal returns for an event study of the impact of changing of administration leadership

Event day	AAR	t-stat	ACAR	t-stat
-5	0.00298	0.70390	0.00298	0.70
-4	0.00454	1.07469	0.00752	1.26
-3	0.00075	0.17622	0.00827	1.13
-2	-0.00164	-0.38703	0.00663	0.78
-1	0.00470	1.11114	0.01133	1.20
0	-0.00168	-0.39804	0.00964	0.93
1	-0.00225	-0.53136	0.00740	0.66
2	-0.00535	-1.26617	0.00204	0.17
3	0.00319	0.75440	0.00523	0.41
4	0.00945	2.23423**	0.01468	1.10
5	-0.00162	-0.38337	0.01306	0.93

Figure 5.8: Plot for average cumulative abnormal returns for changing of administration leadership
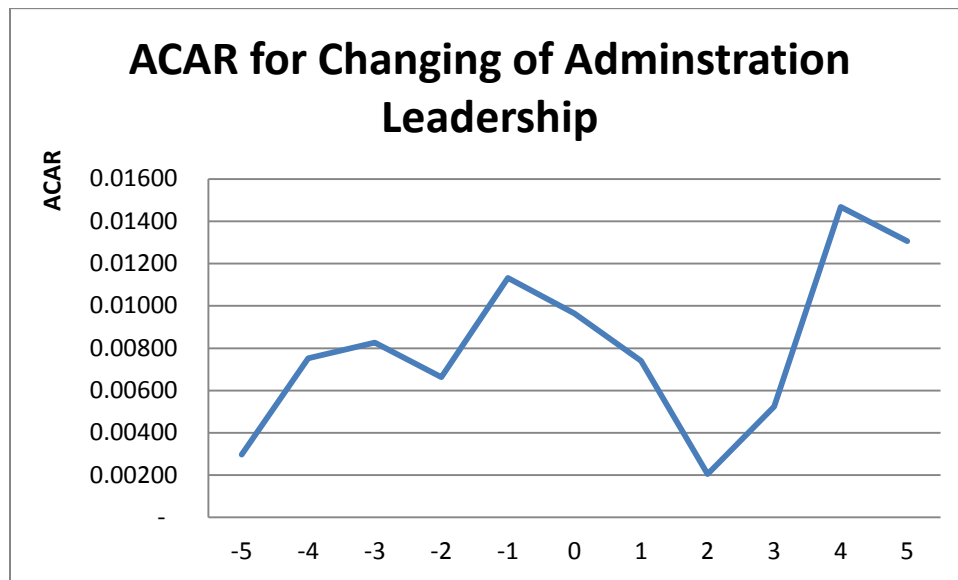
From the results, it is not difficult to conclude that the market usually treats the cabinet reshuffles as good news and react positively towards it prior to the actual day of the event. However, it is also interesting to find out that after the announcement of the new cabinet, the market slumps drastically and record negative ACARs two days after the event.

Although statistically not significant, the ACARs prior to the new cabinet announcement increased steadily from day -4 to the event day itself before it dramatically falls for the next few days. This gives an evidence of market overreaction to the cabinet reshuffle events. Besides, there is also an evidence of information leakage found prior to the release of cabinet reshuffle results. This is marked by a significant AAR of 1.2% four days prior to the event day. Table 5.9 and Figure 5.9 present the AARs and ACARs in tabulated format and plot respectively.

Table 5.9: Average abnormal returns and average cumulative abnormal returns for an event study of the impact of cabinet reshuffles

Event day	AAR	t-stat	ACAR	t-stat
-5	-0.00842	-1.34	-0.00842	-1.34
-4	0.01231	1.96**	0.00389	0.44
-3	-0.00122	-0.19	0.00267	0.25
-2	0.00313	0.50	0.00580	0.46
-1	0.00324	0.51	0.00904	0.64
0	0.00184	0.29	0.01088	0.71
1	-0.00742	-1.18	0.00346	0.21
2	-0.00761	-1.21	-0.00415	-0.23
3	0.00259	0.41	-0.00156	-0.08
4	-0.00518	-0.82	-0.00674	-0.34
5	0.00104	0.17	-0.00570	-0.27

Figure 5.9: Plot for average cumulative abnormal returns for cabinet reshuffle events
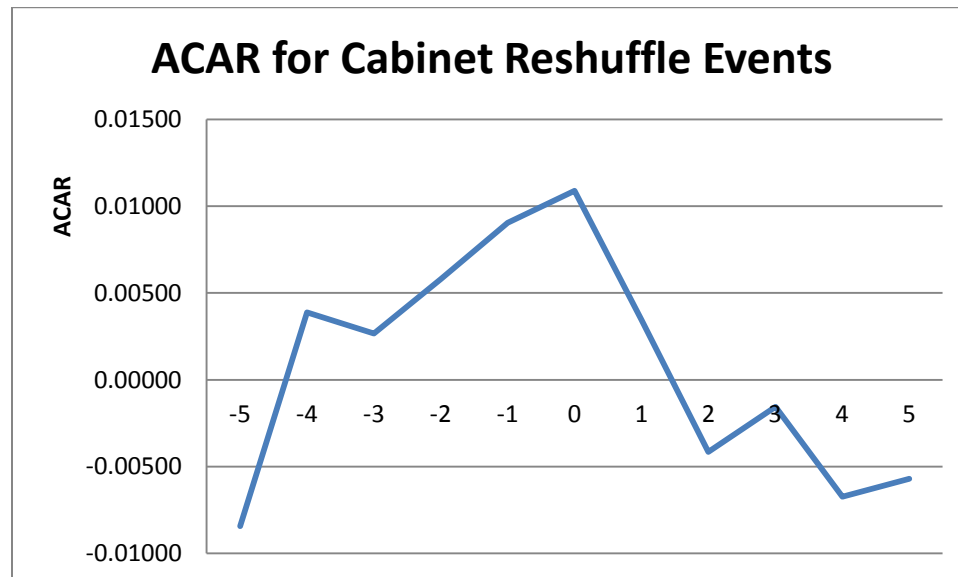
Party elections

Statistical results show that political party elections do not really concern the stock market as all AARs and ACARs are insignificant. This outcome could probably be explained using Political Business Cycle Theory. Unlike General Elections, the results of

party elections will not directly change the political landscape of a country which in turn alters a country's policies. According to *partisan theory*, the economy will only fluctuate if the regime falls to the alternate party that will possibly set policies different from the incumbent party.

Although insignificant, we do see that the market react negatively before and after the party elections as the ACARs stay below zero most of the time with slight increase to positive figure one day before and after the elections. Then, interestingly, the ACAR consistently falls thereafter until it reached -2.07% on day 5 and hence gives and evidence that the market underreaction to unfavorable news.

Table 5.10: Average abnormal returns and average cumulative abnormal returns for an event study of the impact of party elections announcements

Event day	AAR	t-stat	ACAR	t-stat
-5	-0.00150	-0.33	-0.00150	-0.33
-4	-0.00353	-0.77	-0.00503	-0.77
-3	0.00062	0.13	-0.00441	-0.55
-2	-0.00209	-0.45	-0.00650	-0.71
-1	0.00762	1.66	0.00112	0.11
0	-0.00117	-0.25	-0.00005	0.00
1	0.00398	0.86	0.00393	0.32
2	-0.00519	-1.13	-0.00126	-0.10
3	-0.00647	-1.41	-0.00773	-0.56
4	-0.00765	-1.66	-0.01538	-1.06
5	-0.00533	-1.16	-0.02071	-1.36

Figure 5.10: Plot for average cumulative abnormal returns for party elections announcement
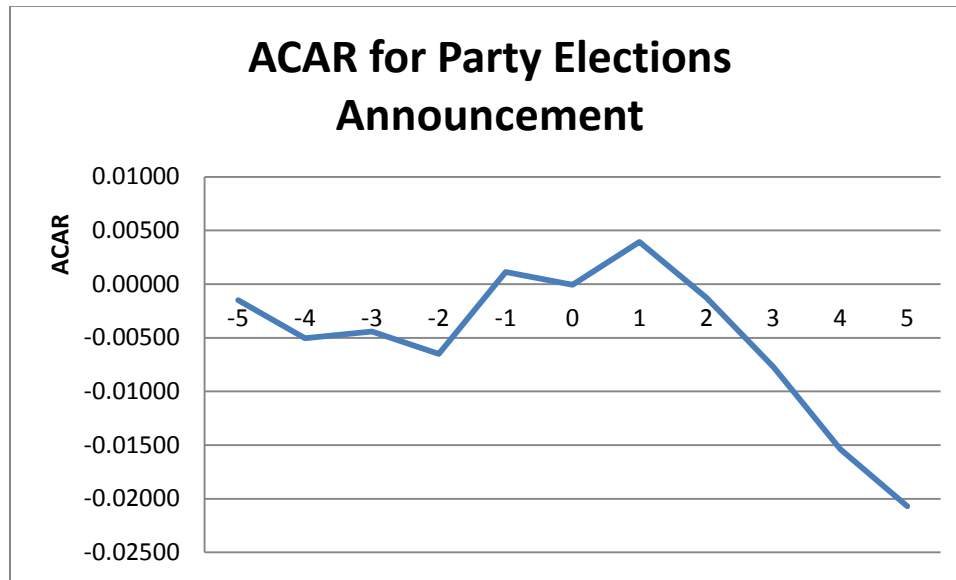
Extraordinary events

Extraordinary events are usually events which are not anticipated as they are some of the most remarkable events in Malaysia's history. As the statistics show, there is clear evidence of leakage of information about an extraordinary event in general. We could clearly see that most of the AARs and all ACARs prior to the events are significant. These negative AARs and ACAR reflect pessimistic perception of the market on the leaking information.

As we can see, AARs are all negative and significant before the event day and turn to a significantly positive 3.87% on day two and stay rather consistently for the next day, causing the ACAR to improve from -6.43% on the day before the announcement to -3.00% two days after the announcement. According to Uncertain Information Hypothesis (UIH), the market participants tend to treat uncertainties with great care by

pricing the securities at a much lower value until all uncertain factors crystallized. This can be clearly seen when the significant AARs and ACARs improve drastically within three days when the situation becomes more certain after the announcement of those events.

Table 5.11:Averageabnormal returns and average cumulative abnormal returns for an event study of the impact of extraordinary events announcements

Event day	AAR	t-stat	ACAR	t-stat
-5	-0.02662	-5.39**	-0.02662	-4.62**
-4	-0.00677	-1.37	-0.03339	-4.09**
-3	0.01059	2.14**	-0.02280	-2.28**
-2	-0.01102	-2.23**	-0.03382	-2.93**
-1	-0.03053	-6.18**	-0.06434	-4.99**
0	0.00025	0.05	-0.06410	-4.54**
1	-0.00462	-0.94	-0.06872	-4.50**
2	0.03873	7.84**	-0.02999	-1.84**
3	0.03819	7.73**	0.00820	0.47
4	-0.03097	-6.27**	-0.02277	-1.25
5	0.01259	2.55**	-0.01018	-0.53

Figure 5.11: Plot for average cumulative abnormal returns for extraordinary events announcements
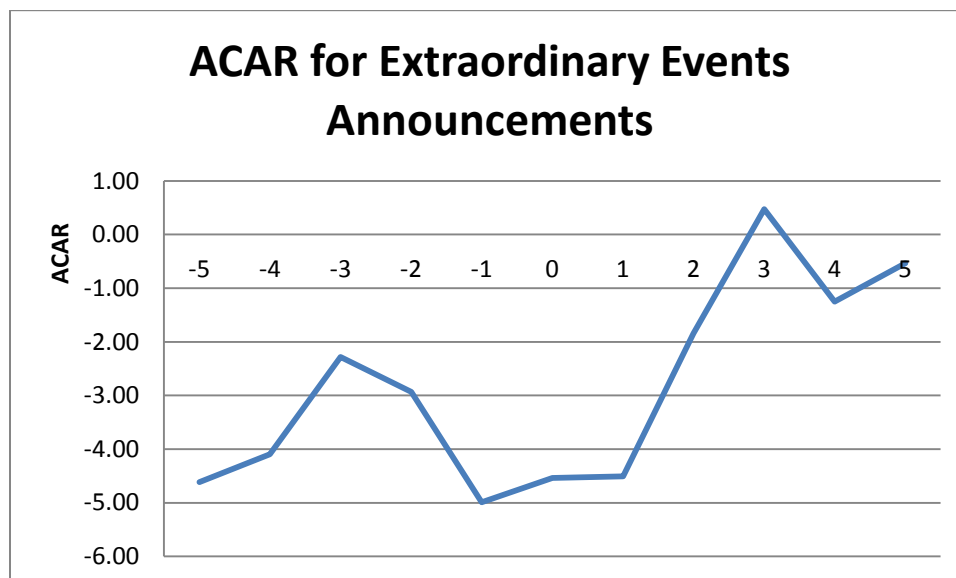
5.6   Difference of market reaction between political and budget announcements

At first sight, it seems that the reaction of market to budget announcement is far less aggressive than political announcements. As table 5.2 shows, the KLCI mean reaction towards positive political announcement is nearly double the magnitude of its mean reaction towards positive budget announcement on day 0.   Similarly for negative announcements, the KLCI mean reaction on political announcements is more than three times its reaction to negative budget announcements on day 0. As we can see from the AAR_0 of KLCI on the day of a positive budget announcement from table 5.2, although significant, the AAR_0 is only a mere 0.83%.   Similarly for an unfavorable budget announcement, the AAR_0 is stated at -0.54% as compare to -1.93% for a negative political announcement.

To investigate whether these apparent differences are significant, we test the null hypothesis that the mean market reaction after political announcements is equal the mean market reaction after budget announcements. The result of the t-test is tabulated in Table 5.12.

Table 5.12: Comparison of mean market reaction to political and national budget announcement

t	Difference in AAR_t* (%)	t-value	t	Difference in AAR* (%)	t-value
0	0.71	1.81**	0	-1.34	-1.33
1	0.31	0.80	1	0.48	0.46
2	0.67	1.69	2	0.91	0.87
3	1.00	2.52**	3	0.85	0.82

* Difference=AAR_t(political)-AAR_t(Budget)

The results show that the market reaction to positive political and budget announcement is significantly different on the day of the announcement and three days after the announcement. This is a hint that market has a stronger response towards political news as compare to budget news. Interestingly, the results find no vivid evidence to prove any significant difference in market reaction for negative political and budget announcements. This contradicts the results from the visual inspection of the CAR graphs. The reason is mainly because the variance of the abnormal return is much larger during the period from 1998 to 2004 where the negative budget announcement falls. Since there is an inverse relationship between the variance and the t-value, a large variance therefore results in a small t-value which falls within the critical range.

5.7   The market reaction to individual political announcement

This section is going to delve into each of the thirty eight political announcements and explore their impact on the market reaction individually. Figure 5.12—5.49 illustrate the CARs of KLCI with respect to each announcement.

From visual inspection of the graphs, we might suggest that the market tend to overreact to positive political news slightly more than half of the time as out of 21 positive political announcements, the CARs are downward sloping for 12 of them (event no. 1, 2, 5, 6, 7, 12, 13, 22, 23, 26, 27, 28). Spyrou et al. (2007) define overreaction as a situation where a positive (negative) abnormal return follows a negative (positive) shock. On the announcement day (day 0), the market reacts positively by achieving a positive abnormal return but soon this positive abnormal return decrease overtime causing a reduction in

cumulative abnormal return gradually.   As the graphs show, all of the 12 events caused the market to react positively initially, but end up stating a negative CAR five days after the announcements.

Besides that, the visual inspection suggests that, although occurs less, the market will also tend to underreact to positive political announcements as this is reflected in increasing positive cumulative abnormal return for seven events (event no. 4, 16, 18, 21, 33, 34, 37) over a period of five days after a positive announcement. The other two events (event 17 and 30)result in a highly fluctuating CAR and hence there is no clear sign to suggest whether market overreact or underreact to the news.

As similar to positive news, the market response to negative political announcements is a mixture of overreactions and underreaction. Interestingly, market seems to underreact to negative political news most of the time as 12 out of 17 negative news gave rise to further negative abnormal returns after negative announcements (event 8, 9, 11, 14, 19, 20, 24, 25, 29, 32, 36, 38). However, some of the market underreaction feature this time is arguable because for some events (event 9, 14, 24, 25, 32) the abnormal return falls sharply after the announcements within a few days but bounce up tremendously the next day. This situation can either be explained by UIH or interpreted as market overreaction to delayed receipt of negative news, due to market inefficiency, thus causing the abnormal return to take few days to reach its bottom and then bounce back.

On the other hand, market tends to overreact to four negative events (event no.3, 10, 15, 31). As for event 35, there is a huge fluctuation of CAR between negative and positive values and therefore the sign of overreaction and underreaction is unclear according to the definition.

Figure 5.12—5.49:

Cumulative Abnormal Return from day 0 to day 5 for Individual Political Events Announcements

Positive Events
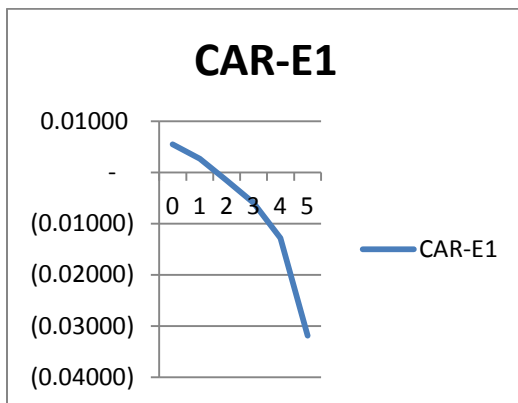
Figure 5.12: Hussein Onn announced retirement
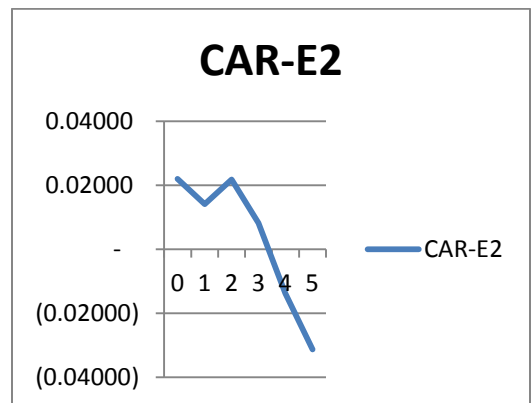
Figure 5.13: The UMNO Election 1981
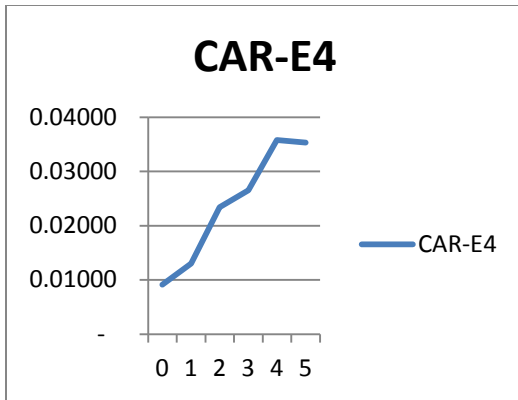
Figure 5.14: The National Election, 1982

Figure 5.15: MCA Crisis, 1984

Figure 5.16: UMNO Election, 1984

Figure 5.17:Major Cabinet Reshuffle, 1984

Figure 5.18: The National Election, 1986
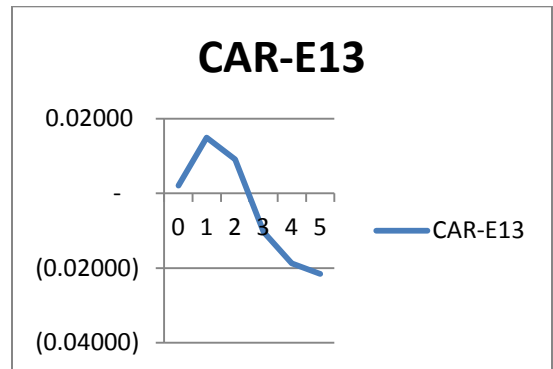
Figure 5.19: UMNO Election, 1987
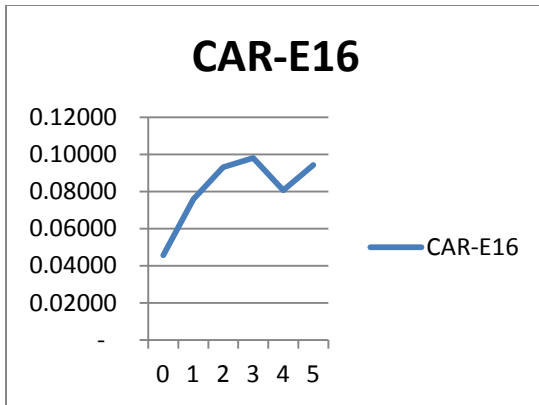
Figure 5.20:The National Election, 1990

Figure 5.21: Resignation of Ghafar Baba

Figure 5.22: Appointment of Anwar Ibrahim as DPM

Figure 5.23: Removal of Anwar Ibrahim as DPM

Figure 5.24: Cabinet Reshuffle 1999
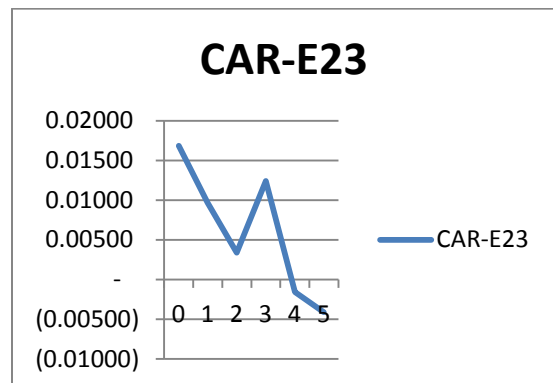
Figure 5.25: Announcement of the National Election 1999
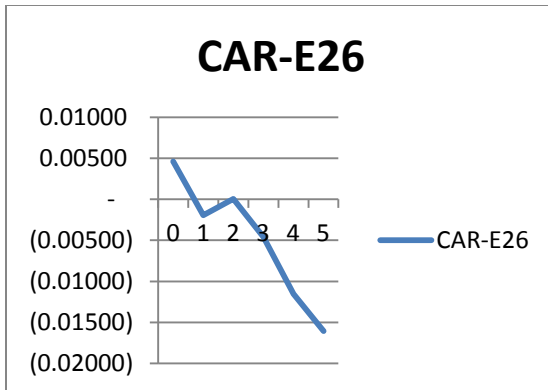
Figure 5.26: Abdullah Ahmad Badawi became PM
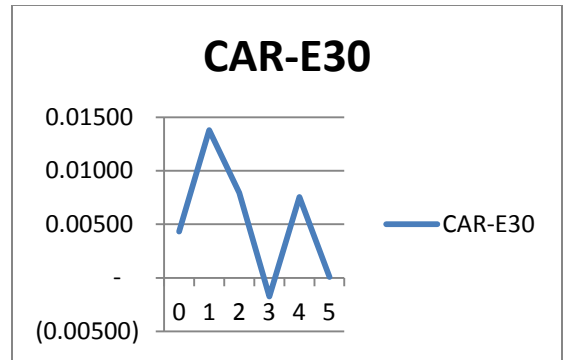
Figure 5.29: Announcement of National Election, 2008
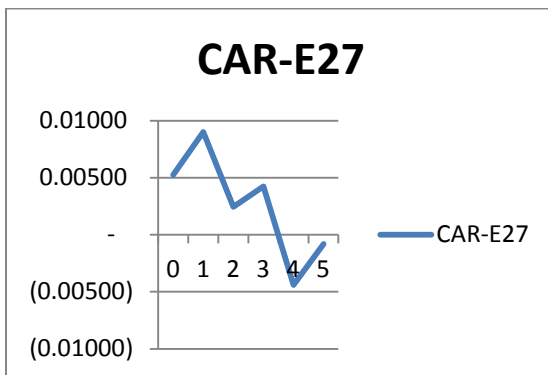
Figure 5.27:Announcement of National Election, 2004
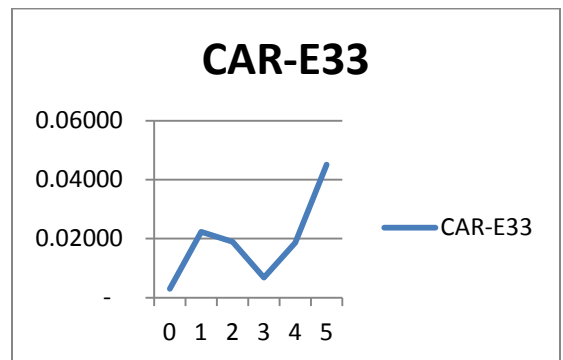
Figure 5.30: Najib became the 5th PM
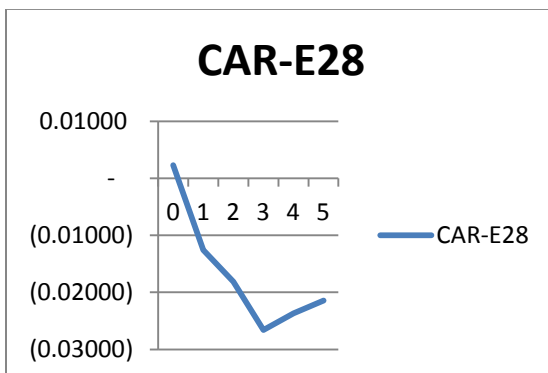
Figure 5.28: The National Election 2004
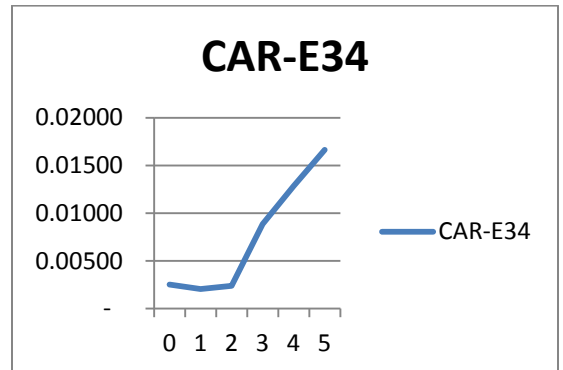
Figure 5.31: MCA Election 2010
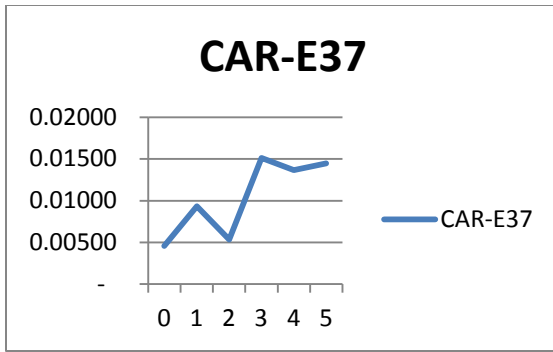
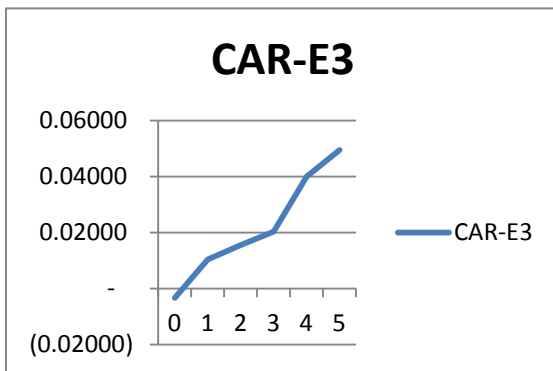**Figure 5.32: Announcement of BERSIH 2.0 rally**

Negative Events

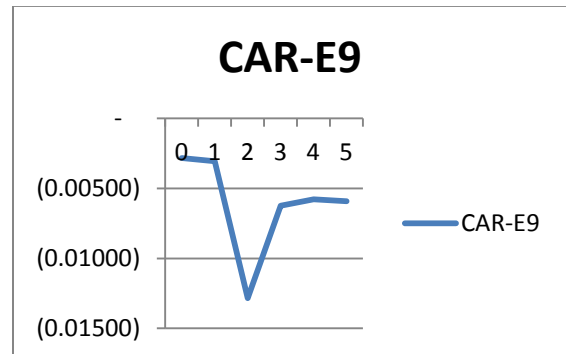**Figure 5.33: Announcement of National Election 1982**
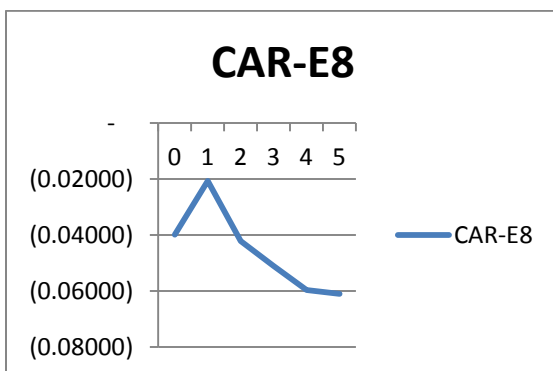

Figure 5.35: Musa Hitam resigned as DPM

Figure 5.34: MCA Party election 1985

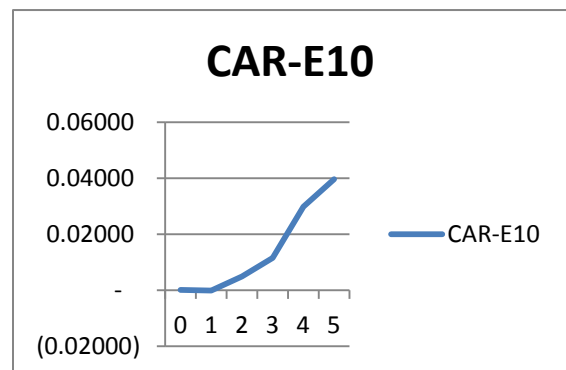**Figure 5.36:Ghafar Baba appointed as DPM**

CAR-E11

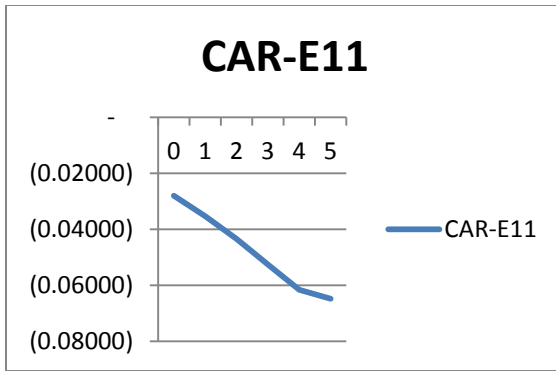**Figure 5.37: Announcement of National Election 1986**

CAR-E14

Figure 5.38: Operation Lalang

CAR-E15

Figure 5.39: Announcement of National Election 1990

CAR-E19

Figure 5.40: Announcement of National Election 1995

CAR-E20

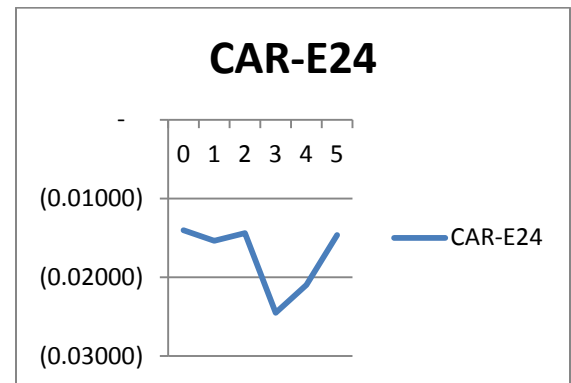**Figure 5.41: The National Election, 1995**

CAR-E24

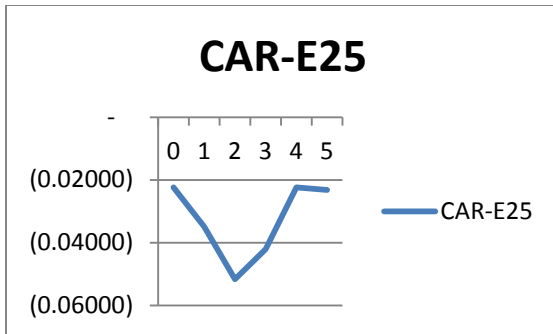**Figure 5.42: The National Election 1999**

Figure 5.43: Announcement of resignation of Mahathir as PM
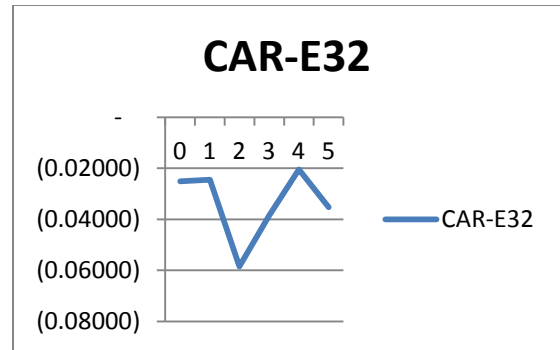

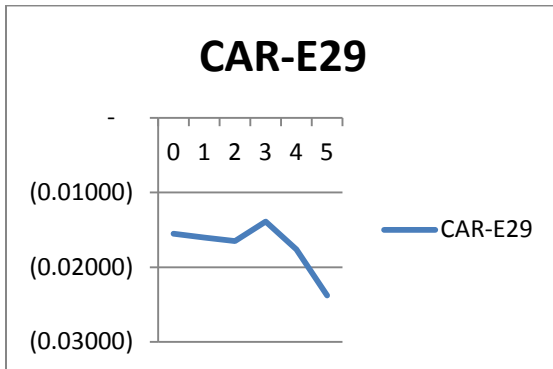**Figure 5.46: Announcement of resignation of Abdullah Badawi as PM**

Figure 5.44: BERSIH 1.0 rally
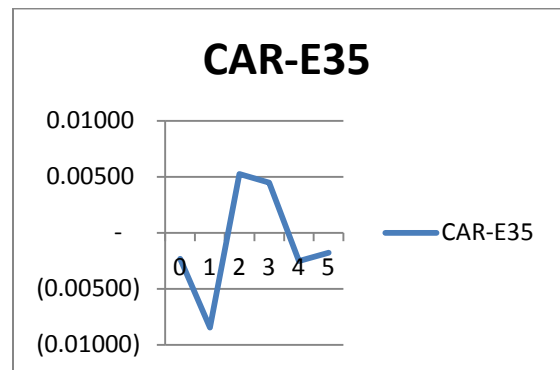
Figure 5.47: Cabinet reshuffle 2010
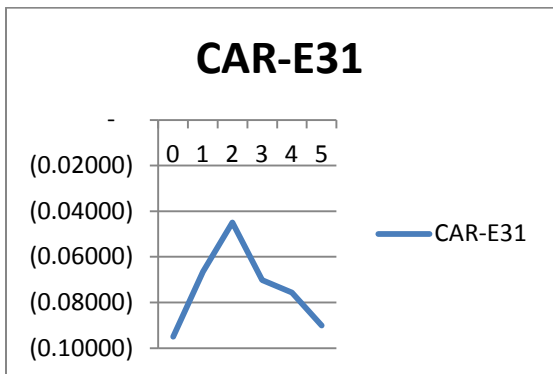
Figure 5.45: National Election 2008
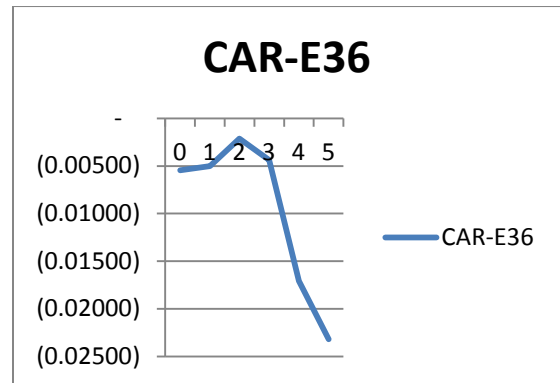
Figure 5.48: Announcement of 1Malaysia Program
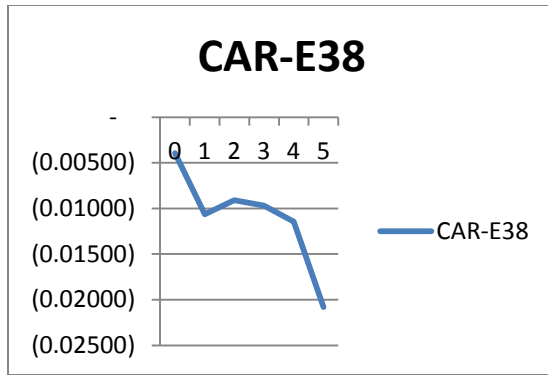
Figure 5.49: BERSIH 2.0 rally

Table 5.13 shows the test results of the impact of each political announcement on market reaction whereas Table 5.14 presents the test results of the cumulative impact of the events. As the table shows, not all political events cause significant impact on the market. This is verified by the insignificance of the test statistics of AR for day 0, day 2 and day 5 after the announcements. In total, out of thirty eight political announcements, only nine events shock the stock market by significant positive or negative abnormal return on the announcement day. There are, however, a few cases where the market does not react immediately to the announcement of the news, but take time to reflect the information content. Such cases include cabinet reshuffle 1999 and 2010 (event 22& 35), the shift of premiership to Najib (event 33) and the BERSIH 2.0 rally 2011 (event 38). Hence, this is an evidence of market inefficiency of reflecting public news as it violates the semi-strong form efficient market hypothesis (Fama, 1970).

MCA party election 1985

As the results show, the MCA party election in 1985 held on 24 November created a negative impact to the stock market, as the stock market shows a significant -4% on the

election day itself and a significant CAR of up to -8.34% over the event period. The

election result was that Tan Koon Swan won a decisive victory over Neo Yee Pan on the

MCA Presidency by the vote of 2,715 to 809 (Means, 1991). As Means (1991) points

out, the landslide victory of Tan's fraction supposed to stabilize the MCA as a viable

partner of the ruling coalition. However, the market reacted negatively to the news

probably because of the controversy over Tan's involvement in speculative stock market

maneuvers and mismanagement of Multi-Purpose Holdings Bhd (MPHB)—the then

second largest company on the local stock exchange—which eventually almost caused

bankruptcy of MPHB (Gomez &Jomo, 1997).

Operation Lalang

The happening of Operation Lalang was one of the most controversial issues in

Malaysian history and its impact to the economy is undoubtedly significant, as shown in

the test results. From Table 5.14, we can see that even before the arrest took place, there

was already a cumulative negative market impact which was reflected in a negative CAR

of over 21 %on the stock market index two days before, probably caused by the

outrageous street rally that created tension to the society. The fuse of this massive arrest

is probably the promotion of non-mandarin trained teachers by the government to head

and administer Chinese schools which led to a public rally which involved Chinese

protestors (Means, 1991; Milne &Mauzy, 1999). However, this rally had further induced

an even more massive rally conducted by UMNO Youth in response to the Chinese'

protest (Means, 1991). This event intensified the already deteriorating ethnic disputes

between the Chinese parties and the government and as a result, on 27 October 1987,

Malaysian police arrested 63 people under the ISA causing a negative abnormal return of 3% to the market. However, there is also evidence that the market might overreact to this event as the abnormal return on the second day suddenly increased to 8.5%. In general, the negative impact of this event is enormous as the cumulative effect on the market was a significant -22.1% over the whole event period. This market reaction was probably also reflecting the investors' concern on the political stability and human rights issue in Malaysia (Milne & Mauzi, 1999; Hwang, 2003).

The General Election 1990

While most of the electionsdo not really concern the market reaction as shown by the test results, the market response to the election in 1990 was remarkably positive. The AR was a significant 4.57% on the Election Day itself and the optimistic view of the market had further escalated the CAR to 9.44%. Although facing challenge by opposition coalition led by Tengku Razaleigh, the ruling BN secured an overwhelming victory of 127 out of 180 parliament seats (Hwang, 2003). As pointed out by Hwang (2003), the ruling BN coalition was further strengthened after the 1990 elections and that it was a sign for the nation to regain political stability after years of leadership split within the old UMNO circles. The positive stock market reaction also reflected the nationwide popularity of Mahathir's new ruling party and his initiatives in liberalizing economic and cultural issues (Hwang, 2003)

Anwar Ibrahim ousted from UMNO

The removal of Anwar Ibrahim is totally unexpected by the market and this can be seen from the insignificance of CAR cumulated two days before the event and it is by far the most shocking announcement among the events as the market reacted positively with abnormal return of above 12% on day 0, day 2 and even on day 5. Interestingly, the sacking of Anwar Ibrahim happened one day after Mahathir's announcement of capital control policy to rescue Malaysian economy from the disastrous 1997 Asian financial crisis. One of the reasons why the market reacted positively to this event is perhaps in dealing with the financial crisis, Anwar preference was to adopt the International Monetary Fund bailout program, which seemed by many as an austerity on already deteriorated economy (Milne &Mauzy, 1999). Anwar's approach actually contradicted Mahathir's idea of using a more expansionary approach by first fixing the currency to US dollars. Mahathir's expansionary policy is believed to favour local businessman especially those promoted by Mahathir as they were now being "taken care" of (Milne &Mauzy, 1999). Hence removal of Anwar signaled a confirmation of expansionary bailout policy which is believed to favor local investors.

The resignation of Mahathir Mohamad

Another stunning announcement that shook the whole nation is perhaps the resignation of the 4th Malaysian Prime Minister, Dr. Mahathir Mohamad. The announcement was made on June 22, 2002 at the 53rd UMNO annual general assembly. His sudden and emotional announcement had shocked UMNO and prompted immediate persuasion from the party members for him to reconsider (Noor, 2004). Unanticipated, the market reacted

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negatively by seeing a slump in market index which results in significant -2.24% and -1.67% abnormal return on the day of and the following day after the announcement. However, this shocking impact did not last long as the market went back to normal and AR and CAR disappeared.

The 2008 General Election—the "Political Tsunami"

In the history of Malaysia, right before the 2008 National Election, the only time when the ruling coalition failed to win handsomely was in the 1969 election which eventually led to racial riot. However, on March 8, 2008, the ruling coalition failed to secure two-thirds of the parliament seats for the second time in the 12th National Election, causing the stock market return to slump at 9.5%. Cumulative abnormal loss was increased from 4.5% to 9%. The 2008 election was regarded as the worst performance as the BN coalition was just managed to secure popular vote of 49% in peninsular Malaysia while the opposition obtained 51% (Pandian, 2010). The extreme market reaction can be understood as now the political landscape in Malaysia becomes more uncertain therefore causing discomfort in social and economic surroundings of Malaysia (Pandian, 2010).

Other than the unexpected election results from the 2008 National Election and the National Election 1990 and the MCA 1985 election, this study find no significance market reaction on national or party elections in general probably due to the predictable outcome. This study result is consistent with past research done in Malaysia which suggests there is generally no impact of elections on local stock market (Ali et al., 2010). The result is also consistent with a few US and overseas researches that study the effect

of presidential election on stock return on long term basis (Santa-Clara &Valkonov, 2003; Döpke and Pierdzioch, 2006).

Table 5.13: Market reaction to individual political announcement

No.	Event date	Event-day AR	AR (day 2)	AR (day 5)	Event description
1	15/5/1981	0.55% (0.49)	-0.43% (-0.38)	-1.90% (-1.69)	Hussein Onn announced retirement intention and Mahathir as his successor
2	26/6/1981	2.2% (2.33)*	0.77% (0.81)	-1.75% (-1.85)	The 36th UMNO Election 1981 and announcement of results
3	29/3/1982	-0.33% (-0.28)	0.51% (0.44)	0.95% (0.81)	Announcement of the 6th National Election, 1982
4	22/4/1982	0.91% (0.77)	1.04% (0.87)	-0.05% (-0.04)	The 6th National Election , 1982
5	19/3/1984	1.15% (1.74)	-0.18% (-0.27)	-0.86% (-1.30)	MCA Crisis 1984
6	25/5/1984	0.74% (1.18)	-0.66% (-1.06)	-0.87% (-1.39)	The 37th UMNO Election, 1984
7	14/7/1984	0.59% (0.90)	0.09% (0.14)	-0.32% (-0.48)	Major Cabinet reshuffle
8	24/11/1985	-3.99% (-2.88)*	-2.15% (-1.56)	-0.14% (-0.09)	MCA Party Election, 1985
9	26/2/1986	-0.29% (-0.11)	-0.98% (-0.40)	-0.01% (-0.05)	Musa Hitam resigned as Deputy Prime Minister
10	7/5/1986	0.00% (0.00)	0.51% (0.37)	0.98% (0.71)	Ghafar Baba appointed as Deputy Prime Minister
11	19/7/1986	-2.80% (-1.77)*	-0.81% (-0.51)	-0.32% (-0.20)	Announcement of the 7th National Election, 1986
12	3/8/1986	1.77% (1.03)	-1.01% (-0.60)	-0.36% (-0.21)	The 7th National Election, 1986
13	24/4/1987	0.21% (0.15)	-0.58% (-0.43)	-0.28% (-0.21)	The 38th UMNO Election, 1987
14	27/10/1987	-2.99% (-1.78)*	8.48% (5.06)*	0.28% (0.17)	Operation Lalang (Weeding operation)
15	4/10/1990	-0.11% (-0.05)	0.93% (0.45)	-0.09% (-0.04)	Announcement of the 8th National Election, 1990
16	21/10/1990	4.57% (2.18)*	1.72% (0.82)	1.37% (0.66)	The 8th National Election, 1990
17	15/10/1993	0.61% (0.64)	0.97% (1.02)	-0.62% (-0.66)	Ghafar Baba officially resigned as Deputy Prime Minister

18	1/12/1993	1.60% (1.36)	0.33% (0.28)	-0.54% (-0.45)	Anwar Ibrahim officially appointed as Deputy Prime Minister
19	6/4/1995	-1.98% (-1.12)	-1.14% (-0.64)	-0.25% (-0.14)	Announcement of the 9th National Election, 1995
20	25/4/1995	-1.95% (-1.22)	0.72% (0.45)	0.38% (0.24)	The 9th National Election, 1995
21	2/9/1998	13.00% (5.59)*	16.9% (7.28)*	12.32% (5.29)*	Removal of the Deputy Prime Minister, Anwar Ibrahim
22	20/5/1999	0.19% (0.11)	-3.75% (-2.22)*	0.56% (0.33)	Cabinet reshuffle
23	10/11/1999	1.68% (0.88)	-0.63% (-0.34)	-0.26% (-0.13)	Announcement of the 10th National Election
24	29/11/1999	-1.40% (-0.94)	0.10% (0.07)	0.64% (0.43)	The 10th National Election, 1999
25	22/6/2002	-2.24% (-3.14)*	-1.67% (-2.34)*	-0.08% (-0.12)	Mahathir announced intention of retirement
26	31/10/2003	0.46% (0.71)	0.20% (0.31)	-0.45% (-0.69)	Abdullah Ahmad Badawi became the 5th Prime Minister of Malaysia
27	4/3/2004	0.53% (0.76)	-0.66% (-0.94)	0.36% (0.52)	Announcement of The 11th National Election, 2004
28	21/3/2004	0.23% (0.30)	-0.55% (-0.73)	0.02% (0.30)	The 11th National Election, 2004
29	10/11/2007	-1.55% (-1.32)	-0.04% (-0.04)	-0.62% (-0.52)	Bersih 1.0 rally
30	13/2/2008	0.43% (0.38)	-0.59% (-0.52)	-0.75% (-0.66)	Announcement of the 12th National Election, 2008
31	8/3/2008	-9.50% (-7.90)*	2.16% (1.80)*	-1.45% (-1.2)	The 12th National Election, 2008
32	8/10/2008	-2.50% (-2.43)*	-3.40% (-3.29)*	-1.48% (-1.43)	Abdullah Ahmad Badawi officially announcement his intention to resign
33	3/4/2009	0.30% (0.31)	-0.34% (-0.36)	2.64% (2.77)*	Najib became the 6th Prime Minister of Malaysia
34	28/3/2010	0.25% (0.48)	0.04% (0.07)	0.38% (0.72)	MCA Election 2010
35	1/6/2010	-0.23% (-0.45)	1.37% (2.64)*	0.08% (0.15)	Cabinet reshuffle
36	16/9/2010	-0.55% (-1.19)	0.29% (0.63)	-0.61% (-1.34)	Announcement of 1Malaysia programme
37	26/5/2011	0.46% (0.83)	-0.40% (-0.73)	0.08% (0.15)	Announcement of Bersih 2.0 rally
38	9/7/2011	-0.40% (-0.89)	0.15% (0.35)	-0.94% (-2.10)*	Bersih 2.0 rally—"Walk for Democracy"

Table 5.14: Cumulative Abnormal Return analysis for individual political announcements

No.	Event date	CAR (-2, 0)	CAR (0, 2)	CAR (0, 5)	CAR (-5, 5)	Event description
1	15/5/1981	0.88% (0.45)	-0.16% (-0.08)	-3.19% (-1.15)	-1.9% (-0.51)	Hussein Onn announced retirement intention and Mahathir as his successor
2	26/6/1981	3.53% (2.15)*	2.18% (1.33)	-3.13% (-1.35)	-2.6% (-0.84)	The 36th UMNO Election 1981 and announcement of results
3	29/3/1982	-0.79% (-0.39)	1.55% (0.77)	4.95% (1.73)	9.18% (2.37)*	Announcement of the 6th National Election, 1982
4	22/4/1982	2.36% (1.14)	2.34% (1.13)	3.53% (1.21)	5.58% (1.41)	The 6th National Election , 1982
5	19/3/1984	1.56% (1.36)	-0.02% (-0.02)	-2.46% (-1.52)	-4.72% (-2.16)*	MCA Crisis 1984
6	25/5/1984	2.03% (1.87)*	-0.31% (-0.28)	-1.20% (-0.78)	-2.34% (-1.12)	The 37th UMNO Election, 1984
7	14/7/1984	0.32% (0.28)	0.64% (0.56%)	-0.48% (-0.29)	-3.81% (-1.74)	Major Cabinet reshuffle
8	24/11/1985	-5.74% (-2.40)*	-4.22% (-1.76)*	-6.10% (-1.80)*	-8.34% (-1.82)*	MCA Party Election, 1985
9	26/2/1986	-4.90% (-1.14)	-1.28% (-0.3)	-0.59% (-0.1)	1.20% (0.15)	Musa Hitam resigned as Deputy Prime Minister
10	7/5/1986	1.91% (0.80)	0.50% (0.20)	3.96% (1.17)	4.91% (1.07)	Ghafar Baba appointed as Deputy Prime Minister
11	19/7/1986	3.55% (-1.29)	-4.34% (-1.59)	-6.48% (-1.67)	-9.63% (-1.84)*	Announcement of the 7th National Election, 1986
12	3/8/1986	1.12% (0.38)	0.54% (0.18)	-2.38% (-0.57)	-1.59% (-0.28)	The 7th National Election, 1986
13	24/4/1987	1.79% (0.77)	0.91% (0.39)	-2.16% (-0.65)	0.15% (0.03)	The 38th UMNO Election, 1987
14	27/10/1987	-21.54% (-7.43)*	-6.48% (-2.24)*	0.30% (0.07)	-22.07% (-3.98)*	Operation Lalang (Weeding operation)
15	4/10/1990	2.22% (0.61)	1.53% (0.42)	0.89% (0.17)	0.45% (0.06)	Announcement of the 8th National Election, 1990
16	21/10/1990	7.66% (2.11)*	9.30% (2.56)*	9.44% (1.84)*	13.63% (1.96)*	The 8th National Election, 1990
17	15/10/1993	1.46% (0.89)	-0.12% (-0.07)	-0.17% (-0.07)	3.31% (1.05)	Ghafar Baba officially resigned as Deputy Prime Minister
18	1/12/1993	3.06% (1.50)	1.83% (0.90)	4.49% (1.55)	6.02% (1.54)	Anwar Ibrahim officially appointed as Deputy Prime Minister

19	6/4/1995	1.42% (0.46)	-4.26% (-1.39)	-3.41% (-0.79)	-2.1% (-0.36)	Announcement of the 9th National Election, 1995
20	25/4/1995	-1.20% (-0.43)	-3.19% (-1.15)	-4.10% (-1.05)	-4.16% (-0.78)	The 9th National Election, 1995
21	2/9/1998	1.42% (0.35)	37.06% (9.20)*	52.10% (9.14)*	36.41 (4.72)*	Removal of the Deputy Prime Minister, Anwar Ibrahim
22	20/5/1999	1.27% (0.43)	-5.12% (-1.75)	-3.77% (-0.91)	1.73% (0.31)	Cabinet reshuffle
23	10/11/1999	0.53% (0.16)	0.34% (0.10)	-0.41% (-0.09)	-2.85% (-0.45)	Announcement of the 10th National Election
24	29/11/1999	-0.50% (-0.19)	-1.44% (-0.56)	-1.46% (-0.40)	0.78% (0.16)	The 10th National Election, 1999
25	22/6/2002	-2.26% (-1.83)*	-5.16% (-4.17)*	-2.32% (-1.32)	-2.87% (-1.21)	Mahathir announced intention of retirement
26	31/10/2003	0.94% (0.84)	0.00% (0.00)	-1.61% (-1.01)	-1.45% (-0.68)	Abdullah Ahmad Badawi became the 5th Prime Minister of Malaysia
27	4/3/2004	-0.12% (-0.09)	0.24% (0.20)	-0.08% (-0.05)	0.26% (0.11)	Announcement of The 11th National Election, 2004
28	21/3/2004	1.30% (0.99)	-1.81% (-1.38)	-2.14% (-1.15)	-1.25% (-0.50)	The 11th National Election, 2004
29	10/11/2007	-2.63% (-1.29)	-1.65% (-0.81)	-2.38% (-0.82)	-2.67% (-0.68)	Bersih 1.0 rally
30	13/2/2008	0.62% (0.32)	0.79% (0.40)	0.00% (0.00)	-0.84% (-0.22)	Announcement of the 12th National Election, 2008
31	8/3/2008	-8.23% (-3.95)*	-4.49% (-2.16)*	-9.01% (-3.06)*	-13.53% (-3.39)*	The 12th National Election, 2008
32	8/10/2008	-4.10% (-2.25)*	-5.85% (-3.27)*	-3.53% (-1.39)	-4.64% (-1.35)	Abdullah Ahmad Badawi officially announcement his intention to resign
33	3/4/2009	4.17% (2.52)	1.89% (1.14)	4.5% (1.93)*	7.18% (2.27)*	Najib became the 6th Prime Minister of Malaysia
34	28/3/2010	0.57% (0.63)	0.24% (0.26)	1.66% (1.29)	2.80% (1.60)	MCA Election 2010
35	1/6/2010	0.87% (0.97)	0.53% (0.58)	-0.18% (-0.14)	0.38% (0.22)	Cabinet reshuffle
36	16/9/2010	0.27% (0.34)	-0.21% (-0.27)	-2.32% (-2.07)*	-0.33% (-0.22)	Announcement of 1Malaysia programme
37	26/5/2011	0.71% (0.74)	0.53% (0.56)	1.45% (1.08)	0.83% (0.46)	Announcement of Bersih 2.0 rally
38	9/7/2011	-0.20% (-0.26)	-0.91% (-1.18)	-2.09% (-1.91)*	-1.38% (-0.93)	Bersih 2.0 rally—"Walk for Democracy"

Note: Figures in parentheses are the value of the t-statistics.
* Statistical significant at 95% level

5.8   The market reaction to individual National Budget announcement

This section is going to delve into each of the fifteennational budget announcements and explore their impact on the market reaction individually. Figure 5.50—5.64 illustrate the CARs of KLCI with respect to each announcement.

Figure 5.50—5.64:

Cumulative Abnormal Return from day 0 to day 5 for Individual Budget Announcements
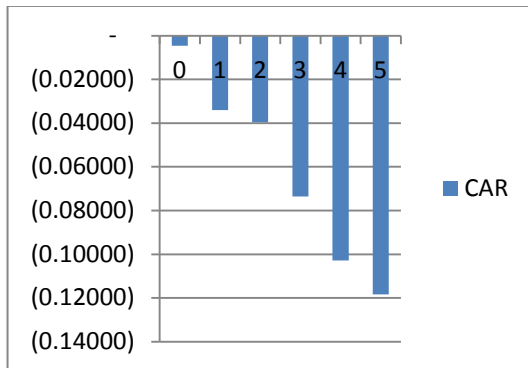
NegativeMarket Reaction

Figure 5.50: Budget 1998

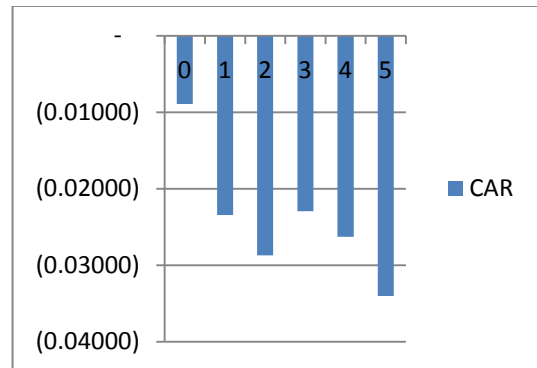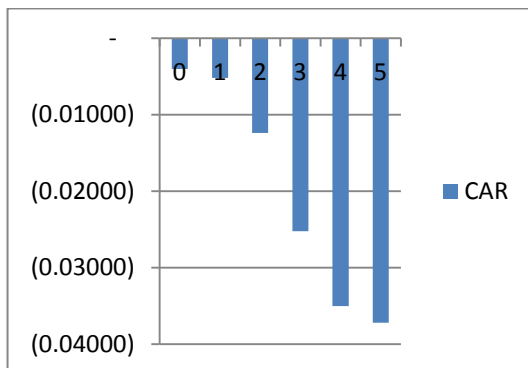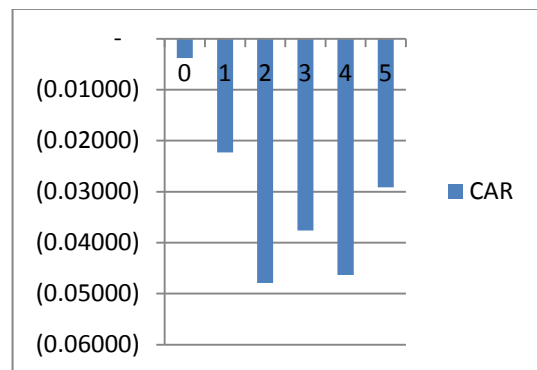Figure 5.52: Budget 2000
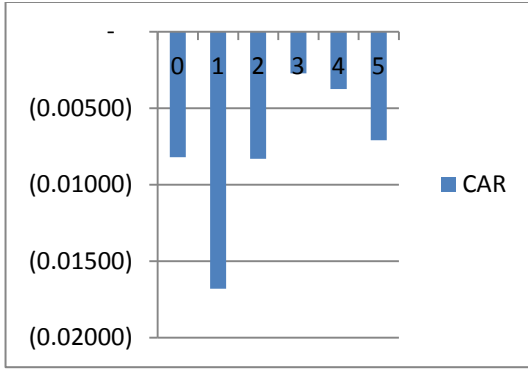

Figure 5.51: Budget 1999

Figure 5.53: Budget 2001
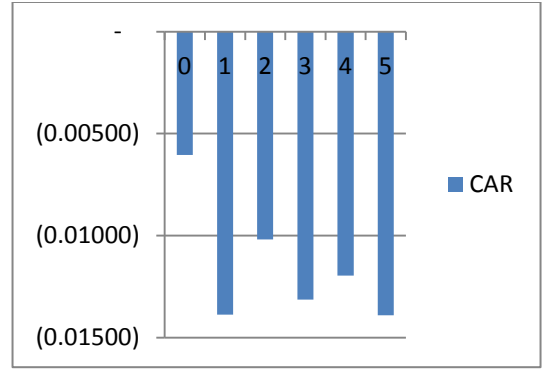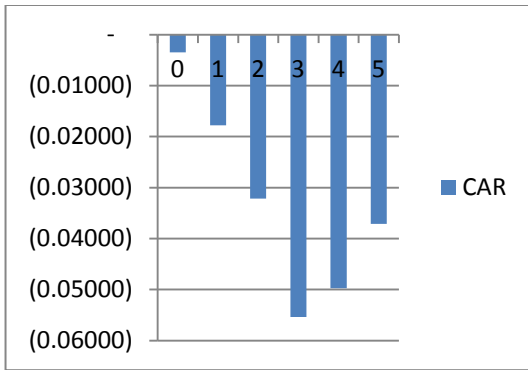
Figure 5.54: Budget 2002
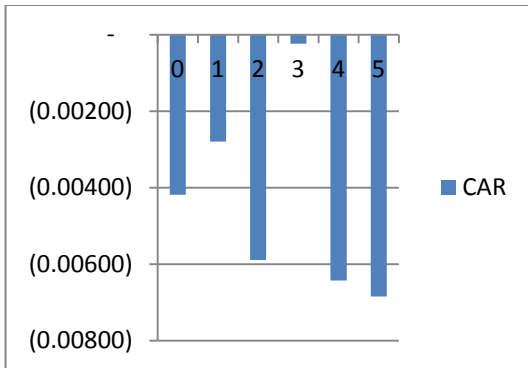

Figure 5.57: Budget 2011

Figure 5.55: Budget 2003

Figure 5.56: Budget 2004
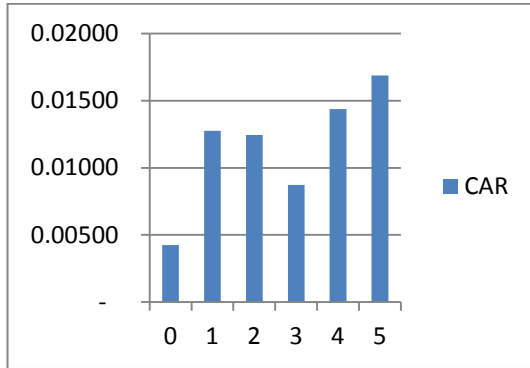
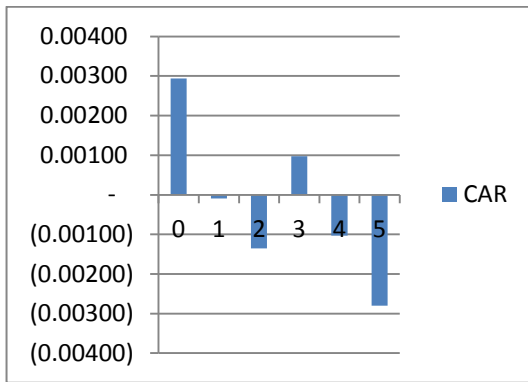**Figure 5.58: Budget 2005**

Figure 5.59: Budget 2006

Figure 5.60: Budget 2007

Figure 5.61: Budget 2008

Figure 5.62: Budget 2009
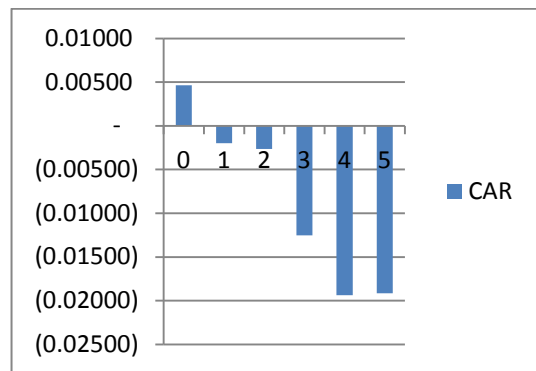
Figure 5.63: Budget 2010

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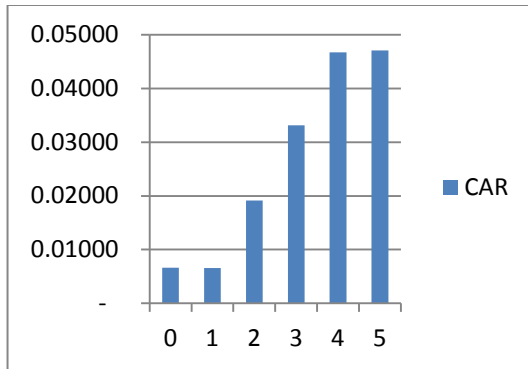
Figure 5.64: Budget 2012

Figure 5.50 to 5.64 show the market reaction (represented by CARs) to national budget announcements from 1998 until 2012. Market seems to react negatively since budget 1998 was announcement right until year 2003 when the budget 2004 was tabled. From then onwards, with an exception of the Budget 2011, the budget announcements seems to bring positive impact to the market as the AR on the day of announcement turn positive. One probable explanation is that during the 'bad' years when Malaysia was hit by the 1997 Asian financial crisis, the government proposed budget deficit to escalate spending to help boosting the country's economy. [5] The consequence followed is that the budget deficit had also put an upward pressure on the interest rates, therefore causing the stock price to fall (Ewing, 2010).

Apart from that, from the visual inspection of figures 5.50 to 5.57, it was found that some budget announcements created market momentum. When budget 1998 was announced, it was expected to be more stringent and austere in order to tackle the economic problems caused by the financial crisis. However, the unrealistically loose fiscal policy proposed and self-denial mentality when coping with the financial issues had eroded the confidence

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[5]*Malaysian Business*, November 16, 2002.

of the investors (Lai and Lau, 2004). The KLCI declined and caused a -0.4% in AR. It then further deteriorated gradually on following 5 days right until when the CAR reached at about -12% therefore suggesting the momentum behavior of market. The market momentum behavior can also be noted clearly during the announcement of budget 1999and 2002 though the CAR over the five days period is much smaller than the year when budget 1998 was released.

As compare to negative budget announcements, market tends to overreact whenever a positive budget announcement was released. It was noted that market reaction was positive during the day or the next day when announcement of budget 2006, 2007, 2008 and 2010 were made. However, the positive abnormal return was followed by consecutive negative abnormal returns on the following days, thus suggesting the existence of market overreaction. The only market momentum, where the UIH is also supported, is observed for announcement of budget 2012. CARs were found to increase gradually from 0.67% to 4.7%.

Table 5.15 shows the test results of the impact of each budget announcements on market reaction whereas Table 5.16 presents the test results of the cumulative impact of the events. As the table shows, the budget announcements have comparatively less impact on the stock market as most ARs and CARs are insignificant. In total, only budget announcements for year 2001, 2003, 2009 and 2012 create some impact to the market, as justified by significant ARs and CARs. Again, there is some evidence of market inefficiency when we observe impact of 2001 and 2012 budget announcements. The

announcements of these two years seem to have no impact on the day of the announcement which is shown by the insignificant ARs on day 0. However, we observe significant ARs on day 2 after the announcement which suggests that the market probably take about two days to incorporate the information and thus delaying the impact on the market. Hence, the semi-strong form efficient market hypothesis (Fama, 1970) does not hold in this context. Besides that, the is also evidence of leakage of information found during the 2009 and 2012 budget announcements as the cumulative abnormal returns two days before the announcements (CAR (-2, 0)) are significant. This is probably a sign of accumulation of market impact caused by the leakage of information two days before the announcements.

The 2003 budget announcement seems to create the largest impact amongst all as the 2-day, 5-day and 11-day CARs are all significant. The announcement of this budget definitely created momentum to the market at least over the next three days as the cumulative abnormal return decreased from -3.22% to -5.5% at the end of day 3 after the announcement. This result is supported by Ewings (2010) where the research found significant influence of fiscal deficits on the stock market movement. This negative impact might be come from the worrying public regarding the sixth consecutive budget deficit announced in the 2003 National Budget. According to the former US Federal Reserves Chairman Alan Greenspan, having large budget deficit would create high interest rates, low level of investment and slow growth in productivity.[6] However, the market momentum soon disappeared after day 3 which suggest that market might overreact to the budget announcement.

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[6]*Malaysian Business*, October 16, 2002

Another budget that creates significant cumulative market impact is the 2012 national budget tabled on October 17, 2011. The market sees an AR of 1.25% on day 2 after the announcement and up to 4.7% for the cumulative impact over 5 days. There was also evidence of leakage of information 2 days prior to the announcement that results in a significant 3.44% CAR on the announcement day. Overall, the market reacts positively to this budget.

The positive reaction from the market is probably due to a few reasons related to tax incentives. First, contrary to many predictions, the Budget 2012 sees no proposal of new taxes or increase in current taxes other than the marginal increase in the effective tax rate from 5% to 10% for disposing properties within a period of two years.[7] In addition to this, it was announced that companies and individuals can obtain tax deduction on the financial contributions to education institutions and all places of worship. Another tax incentive given to the companies is through the new private pension fund—Private Retirement Scheme (PRS).[8] Though not mandatory, the employers are encouraged to contribute to the PRS and tax deductions will be given for the contributions.

As for budget 2009, it is a surprise to see market reacted positively on the day of the announcement as the AR was stated at a significant of 3.02%, since the 2009 budget was generally thought to be lack of catalyst to lift the market in the long term. Though the budget aimed to reduce burden of all Malaysian from poor and middle-income groups, it

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[7]*Malaysian Business*, November 1, 2011
[8]*Malaysian Business*, November 1, 2011

did not justify how it would address the growing inflationary issues that are slicing household's purchasing power. In fact, the positive impact on the stock market on the budget day did not even last for more than a day as the stock market went back to the usual downward trend on the following trading days. Therefore, there is again a sign of market overreaction to announcement of budget 2009.

Table 5.15: Market reaction to individual Budget announcement

Budget	Announcement Date	Event-day AR	AR (day 2)	AR (day 5)
1998	17 Oct 1997	-0.46% (-0.17)	-0.56% (-0.19)	-1.55% (-0.53)
1999	23 Oct 1998	-0.41% (-0.06)	-0.72% (-0.11)	-0.22% (-0.03)
2000	29 Oct 1999	-0.90% (-0.41)	-0.53% (-0.24)	-0.77% (-0.35)
2001	27 Oct 2000	-0.38% (-0.36)	-2.57% (-2.47)*	1.72% (1.65)
2002	19 Oct 2001	-0.82% (-0.54)	0.85% (0.56)	-0.33% (-0.22)
2003	20 Sep 2002	-0.35% (-0.41)	-1.44% (-1.67)	1.26% (1.48)
2004	12 Sep 2003	-0.42% (-0.64)	-0.31% (-0.47)	-0.04% (-0.06)
2005	10 Sep 2004	0.42% (0.79)	-0.03% (-0.06)	0.25% (0.47)
2006	30 Sep 2005	0.29% (0.55)	-0.13% (-0.24)	-0.18% (-0.33)
2007	1 Sep 2006	0.24% (0.43)	-0.48% (-0.87)	0.06% (0.11)
2008	7 Sep 2007	0.70% (0.64)	-0.10% (-0.09)	0.66% (0.60)
2009	29 Aug 2008	3.02% (2.94)*	-1.01% (-0.98)	-1.12% (-1.09)
2010	23 Oct 2009	0.47% (0.83)	-0.07 -0.11)	0.02% (0.04)

2011	15 Oct 2010	-0.60% (-1.29)	0.37% (0.79)	-0.19% (-0.41)
2012	7 Oct 2011	0.66% (0.93)	1.25% (1.76)*	0.04% (0.06)

Table 5.16: Cumulative Abnormal Return analysis for individual Budget announcements

Budget	Announcement date	CAR (-2, 0)	CAR (0, 2)	CAR (0, 5)	CAR (-5, 5)
1998	17 Oct 1997	-2.08% (-0.41)	-3.96% (-0.78)	-11.84% (-1.64)	-12.42% (-1.27)
1999	23 Oct 1998	-0.68% (-0.06)	-1.24% (-0.11)	-3.72% (-0.23)	3.60% (0.16)
2000	29 Oct 1999	1.17% (0.31)	-2.87% (-0.76)	-3.40% (-0.64)	-1.40% (-0.19)
2001	27 Oct 2000	1.40% (0.78)	-4.79% (-2.66)*	-2.92% (-1.15)	1.24% (0.36)
2002	19 Oct 2001	0.03% (1.00)	-0.83% (-0.32)	-0.71% (-0.19)	1.68% (0.33)
2003	20 Sep 2002	-2.35% (-1.60)	-3.22% (-2.19)*	-3.71% (-1.78)*	-5.99% (-2.13)*
2004	12 Sep 2003	-0.67% (-0.59)	-0.59% (-0.52)	-0.68% (-0.42)	-2.61% (-1.20)
2005	10 Sep 2004	1.05% (1.12)	1.24% (1.34)	1.69% (1.28)	2.44% (1.37)
2006	30 Sep 2005	-0.21% (-0.23)	-0.14% (-0.15)	-0.28% (-0.21)	-0.48% (-0.27)
2007	1 Sep 2006	0.70% (0.73)	0.52% (0.54)	-0.31% (-0.23)	0.60% (0.33)
2008	7 Sep 2007	2.35% (1.23)	-0.25% (-0.13)	0.71% (0.26)	3.85% (1.05)
2009	29 Aug 2008	3.45% (1.94)*	2.23% (1.25)	1.36% (0.54)	2.36% (0.69)
2010	23 Oct 2009	-0.18% (-0.18)	-0.27% (-0.27)	-1.91% (-1.39)	-1.34% (-0.72)
2011	15 Oct 2010	-0.28% (-0.35)	-1.02% (-1.26)	-1.39% (-1.22)	-1.23% (-0.79)
2012	7 Oct 2011	3.44% (2.80)*	1.91% (1.55)	4.70% (2.70)*	6.22% (2.64)*

5.9 Summary of Research Results

Table 5.17 presents the overall results of the hypothesis testing for this study.

Table 5.17: Hypothesis testing results

Hypothesis	Hypothesis Result
H10: Political announcements have no information impact on stock market H1A: Political announcements have information impact on stock market and that market is efficient in reflecting the information	Reject H_0
H_{20}: National Budget announcements have no information impact on stock market H_{2A}: National Budget announcements have information impact on stock market and that market is efficient in reflecting the information	Reject H_0
H_{30}: There is no difference between market reactions to political announcements and national budget announcements. H_{3A}: There is a difference between market reactions to political announcements and national budget announcements	Reject H_0

In the test of overall impact of political announcement on stock market reaction, it is clearly shown that market does react to political announcement in general, however, in an inefficient manner. First, for an efficient market, any arrival of information will be absorbed by the stock price at immediate action and thus, we should expect significant abnormal return on the day of the announcement (or the next trading day if the announcement falls on a non-trading day). However, the results show that the after a political news was released, the abnormal return was significant for the next few days. Furthermore, the existence of market momentum after the announcement of positive news and the market overreaction to negative political news reconfirm that the Malaysian stock market is inefficient at semi-strong level, at least in the short term. The CAR plot,

supported by t-test results, proves thesetwo opposite market behavior towards political announcements.

The market reaction to overall national budget announcement is only significant for positive announcements as this can be seen from the significant abnormal returns on the announcement day, as well as average cumulative abnormal return from the next few days. However, there is no sign of any market reaction to negative political announcements as the abnormal returns and average cumulative returns are all insignificant. This might be due to the fact that the variance used to calculate the t-value is much larger for those years where the negative budgets were announced.

This research project also intends to find out whether the market reaction differs for political and national budget announcements. The abnormal returns of day 0 up to day 3 were compared and the results show that while no significant difference was found for the case of negative announcements, market reaction does differ between positive political announcements and positive budget announcements. Therefore, the null hypothesis which states that there is no difference between market reactions to political announcements and national budget announcements is rejected.

Although the general tests contend that the stock market in Malaysia does in general react to political announcement, the reaction also depends on the type of individual political events. This study found that elections in general seem to have less impact on the market due to the predictability of the election results, in which Ali et al. (2010) concluded in

their study of short run stock overreaction. Besides, this result is also consistent with other studies that examine the relationship between stock market reaction and presidential election cycle in the US (Santa-Clara and Volkanov, 2003) and other countries (Hung, 2011). On the other hand, other extraordinary events which are unanticipated do significantly affect the stock market. This is consistent with several previous studies which examine the stock market reactions to various types of extreme events (Lasfer et al., 2003; Spyrou et al., 2007; Kollias et al., 2011). Furthermore, the leakage of information is also captured in a few cases where the CAR (-2, 0) is significantly greater than zero. Apart from that, the market overreaction / market momentum has been detected for a few political announcements thus further provide evidence of market inefficiency at semi-strong level, which is consistent with a local study done by Ali et al. (2010) and oversea studies (Lasfer et al, 2003; Spyrou et al., 2007).

As compare to individual political announcement, there is lesser individual budget announcement which affects the market reaction significantly. Out of the 15 budgets, only budget 2001, 2003, 2009 and 2012 affect the market to various extents. There is evidence of leakage of information found during these announcement, as well as market overreaction and momentum behavior which again lead to the conclusion that the market is inefficient in the semi-strong level.