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**MARKET REACTIONS TO MAJOR POLITICAL SHOCKS AND RECOVERY
DYNAMICS IN PAKISTAN: AN EVENT STUDY OF PSX RETURNS**



By:

FARHEEN FATIMA

(01-222241-003)

Supervisor:

Dr. Mohsin Raza

HR and Management Department

Bahria University Islamabad

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Name of Student: FARHEEN FATIMA Enrol # 01-222241-003

Class: MBA FINANCE

Approved by:

Dr. Mohsin Raza

Supervisor

Qurat Ul Ain Waqar

Research Coordinator

Dr. Aftab Haider

Head of Department

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Name of Scholar: Farheen Fatima

Date: January 2026

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Name of Scholar: Farheen Fatima

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ABSTRACT

This research is aimed at verifying how different political events can affect Karachi stock exchange KSE 100 Index. To this effect, ten significant political events were studied within the study period of 2015 to 2025. They included Panama papers Leak, PM Nawaz Sharif Disqualification, Faizabad Sit-in Ends After Military-Brokered Agreement 2017, General Elections 2018, Azadi March 2019, National Assembly Dissolution and Supreme Court Intervention, April 2022, No-Confidence Motion & Removal of Imran Khan, April 2022, May 9, Riots, Pakistani General Election 2024, Shehbaz Sharif as PM 2025. Political instability is also another common characteristic of macroeconomic climate in Pakistan, although little empirical data exists regarding the repeated political shock causing any effect on market behaviour over a long period. To fill this gap, the study will use the event study methodology whereby it aims at establishing the direction, the magnitude and persistence of the market reactions to the chosen large political events. The results show that multiple political shocks produce statistically significant abnormal returns at event dates suggesting the increased sensitivity of investors to political uncertainty. In a substantial number of instances, cumulative abnormal returns may exceed daily abnormal returns, which indicates that market reaction is usually slow not immediate.

The findings also indicate that the market responses are mainly short term based. Political shocks interfere with the performance of the market around the time of the occurrence of the event, but as time progresses, there is a statistical decrease in the abnormal returns, which denotes market stabilization and recovery. This pattern confirms the fact that the PSX assimilates political information over time and returns to normal level of performance which indicates semi strong form market efficiency. Altogether, the paper presents detailed evidence on the nature of the Pakistani Stock Exchange reactions to the systematic political shocks when the time horizon is quite long. The results provide valuable information to investors, policy makers and regulators. It shows the short-term weakness of the stock market in Pakistan but resilience of the market in the long run in case of political uncertainty.

Table of Contents

ABSTRACT.....	1
CHAPTER 1.....	5
INTRODUCTION.....	5
1.1 Introduction.....	5
1.2 Stock Market and Political Events.....	7
1.3 Development of Pakistan Stock Markets.....	8
1.4 Research Gap.....	9
1.5 Research Problem.....	10
1.6 Research Questions.....	10
1.7 Research Objectives.....	10
1.8 Significance of Study	10
1.9 Organisation of the Study.....	11
CHAPTER 2.....	12
LITERATURE REVIEW.....	12
2.1 Efficient Market Hypothesis	12
2.2 Global Empirical Literature.....	12
2.3 Evidence from Pakistan	14
CHAPTER 3.....	17
DATA AND METHODOLOGY.....	17
3.1 Research Design.....	17
3.2 Identification of Events and Specification of Estimation and Event Windows.....	17
3.3 Sources of Data.....	18
3.4 Computation of Abnormal Returns.....	18
3.5 Population and Sample.....	19
3.5.2 Sample.....	19
3.6 Research Instruments and Measures.....	19

3.7 Variables of Study.....	20
3.7.1 Independent Variables.....	20
3.7.2 Dependent Variables.....	20
3.8 Data Analysis.....	21
3.8.1. Event Study Methodology.....	21
3.8.2 Estimation of Returns.....	21
3.8.3 Abnormal and Cumulative Abnormal Returns.....	21
3.9 Research Model Specification.....	21
3.10 Consideration of Macroeconomic Variables.....	22
3.11 Ethical Consideration	22
3.12 Limitations of the Study.....	22
CHAPTER 4.....	23
DATA ANALYSIS AND FINDINGS.....	23
4.1 Data Analysis.....	23
4.1.1 Event 1: Panama Papers.....	23
4.1.2 Event 2: Disqualification of PM Nawaz Sharif.....	24
4.1.3 Event 3: Faizabad Protest.....	24
4.1.4 Event 4: General Elections 2018	25
4.1.5 Event 5: Azadi March 2019	26
4.1.6 Event 6: National Assembly Dissolution	27
4.1.7 Event 7: No Confidence Motion.....	28
4.1.8 Event 8: 9th May Riots, 2023	29
4.1.9 Event 9: General Elections 2024	29
4.1.10 Event 10: Appointment of Shehbaz Sharif as PM.....	30

4.2 Data Findings.....	31
4.3 Discussion	31
CHAPTER 5.....	33
CONCLUSION AND RECOMMENDATIONS.....	33
5.1 Conclusion.....	33
5.2 Practical Implications	34
5.3 Limitations	35
5.4 Recommendations.....	35
REFERENCES	36

CHAPTER 1

INTRODUCTION

1.1 Introduction

Stock market is a vital source of funds to listed companies and are the major drivers of cycling capital often to an economies cycle and serve as catalysts of commercial and industrial activities (Irshad 2017). It is therefore considered that overall economic performance is largely reflected in the performance of stock market. Investors engage in stock markets in anticipation of getting returns on the money they invest. Stock market development is, therefore, central to the formation of a healthy financial system, as it does not only facilitate economic development, but also indicates the trends and changes in the development of the economics (Adebayo, et al., 2022). Stock price is dynamic in nature and hard to forecast (TajMazinani, et al., 2022) characterized by the frequent fluctuations, up and down, daily. It is believed to be a complicated and interdependent system where the price movement depends on an extensive variety of factors and interaction dynamics (Memon, et al., 2020). Among the factors, the government policies, behaviour of investors, economic-friendly conditions, and political occurrences are some of the factors that greatly affect the results of the stock market.

Politics such as general elections is a noneconomic variable that can have significant implications on the investment choices of investors in the stock markets because of the economic policy changes expected once a new political party takes power in the government (Ratnaningsih and Widanaputra, 2019). The study of the correlation between political occurrences and price variations in the stock market is thus of critical importance to the investors and others involved in the policies of a given country. It both reflects the overall health of the economy in all its current states as well as its potentials and the confidence the investors have in it. Due to this fact, stock market is prone to be very sensitive to political events particularly, election that could lead to changes in the economic policy of the government and their regulation (Islam, et al., 2023). The general elections in developing economies such as Pakistan are especially noteworthy political events in that they could significantly impact the business climate, the course of the policy, and investor sentiment in general. (Ashraf, et al., 2020).

Pakistan experienced several significant political shocks between 2015 and 2025 that created a state of uncertainty in financial markets including the Pakistan Stock Exchange (PSX) several times. Such developments helped shape the expectation of investors towards the stability of the political system in the country, the quality of governance and stability of economic policy and policies thereby, placing Pakistan in the right context to examine stock markets response to political disruptions. The case of the publicizing of the Panama papers in April 2016, which revealed offshore financial accounts of well-known political leaders, not excluded representatives of the family of the then Prime Minister Nawaz Sharif. Rarely abated political upheaval, criminal trials and popular demonstrations by the opposition parties triggered by these Revelations caused a drastic increase in the impression of political risk (BBC News; Dawn, 2016).

This period of uncertainty escalated in July 2017 as the supreme court disqualified Prime Minister Nawaz Sharif to remain in office on article 62 (1) (f) of the constitution. The sudden overthrow of an elected Prime Minister increased the level of concern of investors about institutional stability and continuity of leadership which is deeply monitored by financial markets (Reuters; Dawn, 2017). Later in July 2018, the Pakistan general elections led to the ascendancy of Pakistan Tehreek e Insaf to power. Despite the fact the elections was a democratic change in power, claims of pre-election interference, and post election conflicts have been attributed towards the short-term uncertainty in stock market (Al Jazeera; Election Commission of Pakistan). A fresh political turmoil broke out in April 2022, and the Prime Minister Imran Khan was removed via a vote of no confidence, becoming the first such successful motion in the history of Pakistani politics. It is an episode that has enhanced the level of political polarization, led to mass protests, and increased the uncertainty of economic management in the face of a balance of payment crisis that persists (Reuters; IMF country briefings).

Another major situation was witnessed on 9 may, 2023 when violent protests were recorded throughout the country after paramilitary forces arrested Imran Khan. The raid on military bases was a historical incident in the civil military relations of Pakistan, resulting in a severe level of negative reactions and growing uncertainty in the financial market (Reuters; Al Jazeera, 2023). As the general elections were about to take place, there was political uncertainty, with the Imran Khan conviction in January 2024 of a series of cases. The fact these verdicts were announced at the time further polarized politics and raised great fears about electoral fairness and political participation (Dawn; BBC News, 2024).

Even the general elections of February 2024 in themselves were already a significant political shock, with delays in the result announcements, election manipulation accusations, and post-election violence leaving the question of the Government in a legitimate position and the way to move on with the policy further (Reuters; Election Observation Reports). This was followed by legal actions and on-going imprisonment of former Prime Minister Imran Khan in 2025, and one of the primary proportions of shaky coalition rule in addition to prolonged political predicament and ensured investor confidence was very delicate to political trends (The Guardian, 2025).

Past studies on the interplay between political events and stock market actions in Pakistan have highly focused on specific and single political events and especially, general elections. To disclose, Tabash et al. (2023) find evidence on the influence of the 2018 general election through firm level data of the Pakistan stock exchange listed company and employed regression based and volatility modelling. The study aims at capturing abnormal returns at a firm level and thus taking into consideration the volatile patterns surrounding election period. Conversely, the current research seeks to show empirically and give evidence on how political shocks impact overall the performance of stock markets in Pakistan. The proposed study will lead to the contribution to the current mass of literature regarding political events and stock markets, by employing the examination of a variety of key political shocks over a relatively long timeframe, 2015-2025. Instead of focusing on firm level volatility dynamics, the research attempts to take a market level approach by treating index-based returns as the area through which the Pakistan Stock Exchange reacts when faced with recurrence of instances of political uncertainty. This strategy makes it easier to understand market behaviour broad based and more comprehensive in an environment that is characterised by frequent disruptions in politics.

1.2 Stock Market and Political Events

In the long-term, the prices of stocks are to be determined by the future cash flows (in terms of the expected cash flows) of the net asset of the listed forms. These cash flows vary with basic economic parameters such as money supply, interest rate, dividends payout, corporate profitability, tax and inflation, and exchange rate (Riaz, et al., 2023; Siddiqui and Iqbal, 2020). On the contrary, short term stock price fluctuations are commonly based on increased publicity via the mass media, the presence of natural tragedies and economic shocks, and emotions and feelings of the investors. These aspects may pose bullish or bearish market sentiments, which often cause unreasonable volatility in stock markets (Hon, et al., 2021; Kashif, et al., 2021).

The main goal of the study is to discuss the influence of major political shocks on the performance of the stock market in Pakistan during 2015- 2025. This decade has witnessed repeated incidents of political uncertainty in the country which has greatly influenced the investor sentiment and general market behaviour. It started with the political crisis in 2016 caused by Panama papers scandals leading to protracted protest, massive judicial action culminating in the disqualification of Prime Minister Nawaz Sharif in 2017. This was succeeded by the 2018 general election that resulted in a shift in the political leadership with the rise of the Pakistan Tehreek e Insaf led by Imran Khan amid reports of various opinions over transparency during the election. The political unrest is aggravated by the vote of no confidence executed in April 2022 that unseated the Prime Minister and led to mass protests and increased political polarization. The events that followed such as the attempt on Imran Khan life in late 2022, countrywide unrest, after he was arrested in May 2023 and court proceedings against political leadership before the 2024 general election, only further escalated the unstable political environment. Additionally, the post election protest and delayed elections are the outcomes of 2024, as well as the further demonstration and political negotiations that take place in 2024- 2025, highlighted the fact of the political instability persistence in the country. All these recurrent political developments taken together, gives a proper background of how Pakistan Stock Exchange reacts to recurrent political shocks as opposed to isolated events.

1.3 Development of Pakistan Stock Markets

Pakistan in the past used to work through three different stock exchanges. the Karachi stock exchange, the Lahore stock exchange as well as the Islamabad stock exchange (Iqbal, 2012). KSE was founded on 18 September 1947 and emerged as the leading stock exchange in Pakistan. The Lahore stock exchange was formed in October 1970 to meet the financial and investment requirement of Panjab province in accordance with the security and exchange ordinance 1969. Islamabad stock exchange ISE, is an incorporated company limited which was established on 25 October, 1989 in Islamabad. It was licensed to be the stock exchange in 1992 and started its trading activity in July 1992. Of these three-stock exchanges, the KSE is still the biggest and most powerful Pakistani stock exchange.

The Karachi Stock Exchange started operation in 1949 with initial market capitalisation of 37 million and initial listing of only 50 companies. The KSE 50 was the first stock market index to be developed by the KSE and the index was built only with 50 listed companies. By 1971,

the list of companies that were listed on KSE had grown significantly to 318. The KSE 100 index was launched in November 1991 with a base price of 1000 points and had 100 constituents. The inclusion criteria were high market capitalisation of the firms and sectoral representation was achieved by including the most capitalised firm of each sector. At a point of about 50000 points in January 2017, KSE 100 index hit an all-time high in the history of the index. The other significant benchmark is the KSE 30 Index, introduced in 2006 and consists of the 30 most liquid stocks that are listed on the exchange. Since the merger of KSE, LSE and ISE, the PSX is an integrated national Stock Exchange with trading floors in Karachi, Lahore and Islamabad. The PSX currently has about 375 listed companies with the total market capitalization of Rs 7,756 billion (Bajwa & Syed, 2022).

1.4 Research Gap

The empirical studies that have investigated the correlation between political events and the stock market performance in Pakistan have focused mostly on individual political events especially general elections and have mostly used firm level data and regression methodologies (Tabash, et al., 2023). These studies have given some valuable information about the short-term market response of political events but narrowed the understanding about what a political context is which is marked not by individual episode but with a series of repeated election processes, judicial interventions, and change of government, protests and the unstable political environment (Murtaza, et al., 2015). All of which added to the length of doubt. Regardless of this background, there is little empirical data and the way stock market reacts to repetitive political shocks over the time particularly on a market level context. Also, it has been in the previous studies that the financial markets have not been given enough focus about whether the financial markets exhibit adjustment or recovery patterns when the political uncertainty changes moderately unskeptical. (Rasheed, et al., 2021). This highlights a clear gap in the existing literature concerning the cumulative effects of prolonged political instability on stock market performance in Pakistan. The proposed research will fill the gaps in understanding the implications of political instability on investors, policy makers, and market participants in Pakistan by discussing these under researched aspects.

1.5 Problem Statement

As much as the major political shocks take place frequently in Pakistan; the empirical evidence is limited on the cumulative effects of the major political shocks on the performance of the stock market in the long run. The available studies have mainly focussed on isolated political occurrences and firm-based market responses, which might not be sufficient to reflect all market phenomenon within a platform of long running political uncertainty and thus the events result in short lived disruption in the stock markets or cause more logical lasting impacts on stock returns. (Tabash, et al., 2023; Murtaza, et al., 2015). It is important that this gap be filled in the interest of investors as well as policy makers in regulatory bodies who will rely on the signals of stock markets to measure political risk as well as economic stability. On these bases, the research will perform an empirical study to examine how various significant political shocks that occurred in the year 2015 to 2025 may affect the stock market in Pakistan. Mainly with the aim of providing a more inclusive concept of market behaviour when there is long-term political instability.

1.6 Research Questions

1. How does the Pakistan Stock Exchange respond to major political shocks in terms of abnormal returns?
2. What is the direction and magnitude of stock market reactions to different political shocks in Pakistan?
3. How quickly does the Pakistan Stock Exchange recover following major political shocks?

1.7 Research Objectives

1. Assess the impact of major political shocks on abnormal stock market returns at the Pakistan Stock Exchange.
2. Determine the direction and magnitude of stock market reactions to different types of political shocks in Pakistan.
3. Examine the speed of market adjustment and recovery following major political shocks at the Pakistan Stock Exchange.

1.8 Significance of study

The research is meaningful both academic as well as practical. Academically, it adds value to the current literature stating that, rather than discussing a single isolated event, it focuses on

studying the multiple large political stocks in the long term and over ten consecutive years of the period of 2015 to 2025. By focusing on reactions of the market level in Pakistan stock exchange, the research empirically proves how the prolonged effects of political uncertainty cause normal returns thus, contributing to the literature on political economy and financial market specifically considering emerging economies.

Practically, the study findings are applicable to investors, portfolio managers and financial analyst who would be working in the environment that is characterised by political uncertainty. The revelations about the direction, magnitude and recovery pattern of the stock markets reactions to political shocks can assist the market participants in managing the political risk more effectively, optimize their investment strategies and make informed decisions in the time of instability. Moreover, the research has an effective implication to policy makers and regulatory agencies by showing how the progression of politics determines the market confidence and stability that could help inform policy formulations that would help stabilize market during the instances of increased political uncertainties.

1.9 Organization of the Study

Chapter 1: Introduction, which covers, background of the research, problem statement, research gap, research objectives and importance of the research.

Chapter 2: Literature Review, a study of prior studies in the effects of political occurrences and political instability on the performance of the stock market.

Chapter 3: Data and Methodology, outlines the research design, data, and event selection, and methods of analysis applied to test the responses of the stock market to significant political shocks.

Chapter 4: Results and Discussion, which corresponds to empirical findings of the research and the discussion of his/her results in accordance with the research objectives and existing literature.

Chapter 5: Conclusion and Recommendations: a summary of the main findings of the research and a suggestion to investors and policymakers and further studies.

CHAPTER 2

LITERATURE REVIEW

2.1 Efficient Market Hypothesis

The efficient market hypothesis is highly associated with the principles of random walk theory, as put forward by Fama (1965) but subsequently written about by Malkiel (2003). The inherent weakness in pricing of information especially witnessed in the recent cases of sovereign and financial debt crisis is that the market behaviour when introduced with new information cannot be accurately forecasted. Effects of information on the price of asset, particularly in terms of uncertainty, are particularly hard to predict. The equilibrium prices cannot be well determined during the periods of increased uncertainty as argued out by Fama (1965). News, hence, is a major factor that determines the price of stocks. Nevertheless, it is worth discussing that information can influence a business industry even prior to its official release or popularisation among people.

The political and economic events are always unpredictable, and the unexpected development may lead to market responses in the form of abnormal returns. In an event study, the assumption is that there are no other confounding events that take place within the event window. Uncertain events create pressure and stress in financial market especially when assets and financial markets cannot conduct themselves rationally in evaluating and integrating the effects of financial events. Individual companies in a market setting can have their stock prices being predictable, as there is an impact differently on financial exposure and sensitivity to newly emerging information.

2.2 World Empirical Literature

Rochimah and Yuliana (2024) explored market outcomes in 11 segments of Indonesia stock exchange when the presidential and vice- presidential candidates were announced in 2023. They studied their events analysis and found that there were mixed responses of sectors. There was considerable difference in certain sectors, but other sectors showed no changes significantly. Lausegger (2021) examine the impact of 87 elections in 21 countries between 1999 and 2016 and discovered that differences in the cumulative abnormal returns in stock markets using different electoral systems and party structures.

Likewise, researchers on LQ-45 firms publicly listed on the Indonesia stock exchange, who found that the abnormal return during elections and election announcement in 2019 was high (Argantha, Sudirman, 2019; Fidiana, 2020; Putri, et al. 2020). Chavali, et al. (2020) evaluated the effects of general 2014 and 2019 elections on the Bombay stock exchange in India. The results were done using an event study methodology and indicated that there was a positive reaction of the stock market with substantially positive average normal returns. Another point raised by the study is the market influence of the two elections varied despite the same political party, which was re-elected during the second election. Ratnaningsih and Widanaputra (2019) examined how the KOMPAS 100 index responds to publishing the results of the Indonesian president election 2019. They used the events study approach to identify positive abnormal returns on or around the event date.

There is a considerable amount of empirical evidence that has captured the impacts of the political uncertainty on the asset prices, the volatility of markets and the general performance of the financial market. Equally, the investigations of Liu et al. (2017) report a steep fall in stock prices throughout the largest political scandal in China, the Bo Scandal. Their results based on the events study method and the calculation of the cumulative average abnormal returns of both general and the policies sensitive firms indicate a sharp rise in abnormal returns volatility as soon as the events occur. Jens (2017) also creates a connection between political uncertainty and investment behaviour of firms. The research, using the elections as exogenous sources of uncertainty, concludes that the corporate investment drops by about 5 to 15 percent based on exposure to the political risk in accordance with firms, whereby businesses will tend to postpone the release of equity and liabilities prior to the elections. Companies view highly competitive election periods to be closely linked with economic recessions hence increasing political ambiguities with elections results.

Volodin et al. (2017) review how the political news influences the dynamics of the stock prices in the Russian stock market between January 2014 and December 2015. According to their study, the positive political news increases the returns whereas the negative political news decreases them. In the returns at the sectoral level and at the aggregate market scale, Osuala, et al. (2018) determine the effect of the 2011 and 2015 presidential elections in Nigeria on the performance of the stock markets through the event study methodology. The findings indicate that the 2011 presidential election had a great negative impact on the stock market where does 2015 election outcome had a positive but insignificant impact as indicated by average and cumulative abnormal returns on the event date and a day after event date.

2.3 Evidence from Pakistan

The study by Alim et al. (2024) uses Generalised Autoregressive Conditional Heteroskedastic (GARCH) and Exponential Generalized Autoregressive Conditional Heteroskedastic (EGARCH) models to fulfil its objectives in the context of Pakistan through time series data comprising stock market returns and volatility of the Pakistani stock market since 2nd January 2004 to 31 May 2018. The study addresses the effect of political stability on the returns and volatility of stock markets in Pakistan. The obtained results of the two methods allow concluding that the political stability has a positive and statistically significant effect on stock market returns and volatility within Pakistan. Moreover, the EGARCH findings indicate that the negative shocks that are caused by political instability can produce more volatility in the stock market than the positive shocks that are caused by political stability. This is an indication that the political instability will more decisively affect the financial market players as compared to political stability.

The impact of economic conditions as well as financial policies and policy factors on the KSE 100 index in 2012-2022 through the usage of daily market new signals on the index applied in OLS AND GARCH methodology revealed that the rise in returns by global news and the bad news by political news to the index were asymmetric in their impact on the index (Raza et al., 2023). More recent panel regression analysis of MSCI indices by Mai et al. (2023) tried to support the finding further that the positive influence of political stability.

Sulehri and Ali (2020) used the event study design to help understand the effect of uncertainty and political events regarding Pakistan stock market. Audi et al. (2020) performed the analysis of 18 political events that took place between October 1993 and May 2013 and found that 8 events had positive impact and 10 events had negative impact on the market performance, indicating that the political events had a strong impact on the market performance, but the impact was not always positive or negative, depending on the existing economic and political expectations. Mehta et al. (2020) examine the influences of political uncertainty on Pakistan stock market 2012-2019 and found that the Islamic stock market has been affected greatly in 5 political incidents and conventional market 6 incidents out of 21 incidents.

According to the hypothesis of efficient market, financial markets are assumed to be rational with full information being factored in into prices of assets and therefore assume that the investors cannot always make supernormal profits. Nonetheless, deviations of the stock market behaviour in the form of abnormal returns frequently lead to the violation of the hypothesis of

EMH. Nazir et al. (2018) carried out a comparative study of Pakistan stock exchange, Bombay Stock Exchange (India) Chittagong stock exchange (Bangladesh) and Columbus Stock Exchange (Sri Lanka) to investigate this issue, to determine whether a correlation exists between political and terrorist events, and market returns in South Asian financial markets. The authors conduct the research employing the event study methodology and based on the market model where 47 terrorist events and 45 political events in the four countries were examined during the years 2005 to 2016. The empirical result shows that both political as well as terrorist affects stock market returns which are statistically significant. Also, the outcome indicated that the stock market in South Asian countries is inefficient within 15 day event window but the impacts experienced during a second event window is statistically non significant. Existence of noisy information that can not be immediately consumed by the market suggests inconsistency of stock market assumptions of the Efficient Market Hypothesis.

On the stock returns of publicly listed companies in China, Pakistan, India, Saudi Arabia, the United States, and the United Kingdom, Rahman et al. (2018) investigate the most significant events such as the Panama papers leaked, the China-Pakistan Economic Corridor (CPEC), and the Surgical Strike. The results show that stock returns in some countries were responding in the same direction to some of these events whereas there was no statistically significant relationship between stock returns and other events.

Irfan M (2018) examined the level at which the PSX 100 index returns are affected by political events by picking 10 significant political events that occurred between 2008 and 2017 within a window of time of 15 days. In the study, the statistical relationship between the political events and movement in PSX 100 index is tested. The results show that news related events have a significant impact and PSX 100 index with the events of bigger political orientation creating the greatest market impact. The research also concludes that the Pakistan Stock Exchange is semi strongly efficient in the processing and dissemination of information.

The research article by Irshad (2017) focuses on the correlation between the points of political instability and stock value during the years 1998 to 2012, showing that the relationship between them is negative. In their research, Batool et al, (2017) aimed to analyse how Islamic and non-Islamic religious events influence the returns of stock exchange in Pakistan on daily basis. The results indicate that average abnormal returns in the chosen event window displayed both negative and positive impacts to the PSX. The results indicate that the behaviour of the Pakistan stock exchange was not efficient on the events related to other religious events.

The impact of political events and disaster events such as natural disasters on the stock returns of the PSX were analysed by Abdul Latif et al. (2017) who found that the mean returns rose to respond to political events within a temporal event window of 5-days. Even though it was demonstrated that the political events had an effect on the equity returns, the effect was of a short duration and returns returned to normalness within a period of a few trading days of approximately 5 days.

Khan et al. (2017) examined the possibility of stock exchange manipulation in Pakistan during the general elections time. The manipulation of the market during election was a concern between investors and policy makers. Market manipulation during election concerned for both investors and policy makers using the event study methodology, authors examine KSE-100 index across 3 election periods 2002, 2008 and 2013 treated as separate events the result showed the elections in 2002 and 2008 had negative impact on stock market whereas 2013 election was associated with the positive effect on PSX.

2.4 Hypothesis Development:

Previous empirical research indicates that political shocks bring about uncertainty in financial markets which results into an abnormal reaction in the stock market. The semi-strong version of the Efficient Market Hypothesis suggests that the publicly available information on politics is quickly reflected in the price of the stocks. Nevertheless, market inefficiencies and investor sentiment can lead to slow or delayed response in the market especially in new economies like Pakistan. In line with this theoretical and empirical background, the hypotheses will be as follows:

H1: There are statistically significant abnormal returns when major political shocks are experienced in the Pakistan Stock Exchange.

H2: Cumulative abnormal returns to political shock take different directions and levels depending on the type of political shocks in Pakistan.

H3: The Pakistan stock exchange is characterized by rapid recovery after there is a significant political shake up.

CHAPTER 3

DATA AND METHODOLOGY

3.1 Research Design

The research design based on the study is quantitative research that is aimed at investigating the effect of key political shocks on the performance of the Pakistani stock market. This paper examines the influence of significant political events on the daily returns of Karachi Stock Exchange 100 Index to determine the importance of the relationship between KSE returns and the political events taking place in the country. The present research appraises daily stock prices information that is acquired through Karachi Stock Exchange site and investing.com. The research begins on 1st Jan, 2015 until January 2025. To analyse, 10 significant political events are taken, and the data are taken in pre-event period, post event periods and day on which the event took place.

The event study approach is an economic approach that is commonly utilized to determine the influence of a particular event within a period or series of periods. In analysing, the steps that are kept to as per event study methodology are observed:

1. Marking of the events during specification of estimation window and post event window.
2. Calculation of abnormal returns through comparison of expected returns with actual returns in the period of the event.
3. Determining the statistical significance of the impact of the events.

3.2 Identification of Events and Specification of Estimation and Event

Windows

In the initial step, significant political events that take place during the study term are determined. Ten major political occurrences are chosen over the extended period of 2015-2025. These events are categorized into two where one is institutional political events and the other political unrest events to base on their nature. Each event has its pre-event and post event windows. The chosen political events and their respective pre-event and post event are identified respectively. These studies are characterized by the estimation and event Windows which is as follows:

Estimation Window: -120 to -20 trading days prior to the event. This window is used to estimate normal (expected) stock returns under usual market conditions, typically through the market model. It provides the benchmark against which abnormal returns during the event window are measured. Ending the estimation window at -20 days ensures that the return estimates are not influenced by information leakage, rumours, or anticipatory trading that may occur close to the political event.

Event Window: (-3, +3)

3.3 Sources of data

The analysis of secondary data is fully utilized in the study since financial market analysis is based on historical market data instead of data gathered through primary surveys. The closing prices of KSE 100 index daily are acquired relative to reliable sources of financial information such as investing.com among other well-known financial databases. The dataset will be covering between January 2015 to January 2025 that has enough coverage of all the political events with which they shall be covered in the analysis. The closing prices daily are normally taken against intraday or monthly prices because the closing prices are the ultimate rating of all available information that is considered by the markets regarding a specific trading day. Daily data are of special relevance to event study analysis since this is enabled to identify accurately market response just before and after the occurrence of political events.

The calculation of Abnormal Returns:

The abnormal returns are obtained by computing the actual returns against the expected returns over the period of occurrence. Traditionally, it is estimated that the capital asset pricing model (CAPM) $R_i = R_f + \text{Beta} (R_m - R_f)$ can be used to show the expectation of returns in the analysis of event studies. Nevertheless, there is the use of running average method to calculate expected returns in the current study. Actual returns are further compared with the expected returns in order to estimate the abnormal returns. Daily closing prices of KSE 100 index based on their respective dates of selection used in the analysis and the daily returns are determined by the following formula:

$$R_t = \ln (P_t/P_{t-1})$$

Where: R_t = Return on day 't'

P_t = According to date t, Index close value.

P_{t-1} = Index close value of previous date $t-1$.

\ln = Natural log.

The formula that will be used to calculate abnormal return is as shown below:

$AB_{it} = R_{it} - E(R_{it})$ Where: AB_{it} = Abnormal return in day t .

R_{it} = Actual return on date 't'

$E(R_{it})$ = Expected t' Date payoff.

To estimate how important is the event, t-statistics are going to be employed. Value of t-statistics will assist us establish whether some specific event is significant or not which in its turn will give us evidence that can help us to accept or reject the hypothesis formulated by the proposed study.

3.5 Population and Sample

3.5.1 Population

The study population includes every trading day of the Pak stock exchange between the years the period is (2015-2025). Since the study is interested in market level responses as opposed to firm level behaviour, the analysis is more concerned with the market performance rather than individual stocks dynamics.

3.5.2 Sample

The sample size is based on the daily observations of KSE 100 index within the chosen period. Out of this stationary, particular groups of trading days are sensed to form:

1. Expected returns are calculated through estimation Windows.
2. Windows around every political shock detected. Identification of political events

The independent variable of the research i.e. major political shock is operationalized by identifying the crucial political events that took place in the period of the year 2015 to the year 2025. All these occurrences are chosen according to the national significance of these events, the level of media exposure and the capacity to alter investor expectations as regards to market moods. To enhance analytical clarity the political events that have been chosen are categorized into two main categories:

1. Institutional political events encompass institutional political development or formal political development like the general elections of a country, the judicial decisions as well as the government formation or dissolution.
2. Political unrest events Places of political instability where they occur in mass demonstrations and protests and civil unrests.

When an incident happens during a non trading day like on a weekend or during a public holiday, then the next trading day is assigned as the day of event as per the conventional events study guidelines. The data used in the research will be collected and examined via research instruments and measures as outlined below.

Due to the quantitative and finance-oriented characteristic of the study, there are no primary data collection tools like questionnaires and interviews as the research variables are financial and analytical measures based on the stock market data. The main measures adopted in the analysis include:

1. Daily stock market returns
2. Expected returns
3. Abnormal returns
4. Cumulative abnormal returns

All calculations and statistical analysis are conducted using Microsoft Excel

3.7 Variables of Study

3.7.1 Independent Variable

The independent variable of the study is major political shocks in Pakistan, represented by selected political events occurring between 2015 and 2025. The nature of all the political shocks will be qualitative in essence; they would be quantitatively studied by analysing the behaviour of the stock market during the dates that the event date falls.

3.7.2 Dependent Variable

The dependent variable is stock market performance that is quantified by stock market daily returns of the abnormal returns of the KSE 100 index and the cumulative returns of the abnormal ones. These predictors address short-term reaction in the market together with the continuity of political shocks with the delimiting period of the event.

3.8 Data Analysis

3.8.1 Event Study Methodology

The analytical methodology to be used in the given study is the event study methodology. This is the way one can determine whether the returns recorded in the stock market around a particular event are or are not normal market returns thus enabling one to determine abnormal market responses that can be attributed to the event. All computations and statistical analyses related to abnormal returns and cumulative abnormal returns are carried out using MS Excel software.

3.8.2 Estimation of Returns

The conventional calculation formula of the returns is used to the daily stock markets in order to compute their returns: $\text{Return} = (\text{Closing Price 2} - \text{Closing Price 1}) / \text{Closing price 1}$

The approach used by the study to estimate the expected returns includes the use of the mean adjusted return model. The returns were anticipated as the mean daily returns during the estimation period before a political event. Such an approach is common even in the analysis of studies especially when it is intended to observe short term market responses without any extra model exemptions.

3.8.3 Abnormal and Cumulative Abnormal returns

The abnormal returns are ascertained by computing the difference between the actual returns and the expected return, on a case-by-case basis, on a day-by-day basis on the trading day (referred to as event window). The abnormal returns are then accumulated, and abnormal cumulative returns are calculated by summing the abnormal returns during the period of the event. Such measures allow the study to measure:

1. The trend and intensity of stock market responses and
2. The rate of the market recovery after the political sharks.

3.9 Research Models Specification

However, as compared to traditional econometric research involving the use of multiple regression models, this study follows the event study design based on non regression framework. The interest of analysis is on how to compute abnormal returns and cumulative abnormal returns, instead of attempting to estimate regression coefficients by repeatedly estimating models.

3.10 Macroeconomic Variable

The analytical model does not directly include such macroeconomic variables as inflation, interest rates, exchange rates. The main factor that has led to this exclusion is that short event window is used in the event study framework, a factor that restricts the contribution of the greater macro economic trends on stock market movements that are observed.

Moreover, events study approach assumes that under a very limited event window, anomalous variation in stock returns could be substantially associated with the event being investigated. Incorporating macroeconomic variable would, then, add more complexity in time without any meaningful changes in the point that the model can explain in that of short-term market responses.

3.11 Ethical Considerations

It is completely quantitative research that relies on secondary data that is publicly available, and it does not use human participants. As a result, it contains no ethical issues regarding confidentiality, informed consent or protection of personal data. Every source of data is equally referenced, and the review is transparent to sustain academic integrity.

3.12 Limitations of the Study

The study itself is limited in some respects in spite of its contribution. To begin with, KSE 100 index analysis is limited because it does not capture responses of firms on a firm level or industry level, which could vary across industries. Second, the proposed research focuses on few political events, and the conclusion might not be extended to the entire kinds of political developments. Third, mean-adjusted model of return though can be used in event study lack's ability to cover the wide area of the market risks or regression controls of the market. Lastly, although the window of short events is methodologically reasonable, it might not sufficiently represent long term consequences of political shocks on performance of stock markets.

CHAPTER 4

DATA ANALYSIS AD FINDINGS

4.1 Data Analysis

Event 1: Panama Papers

Table 4.1. Abnormal, cumulative abnormal returns and t-statistic around Panama Papers

Event day	Date	AR	CAR	t AR	t CAR	Sig AR	Sig CAR
-3	Mar 30, 2016	0.0014	0.001451	0.23391	0.2339	not sig	not sig
-2	Mar 31, 2016	0.0066	0.008140	1.07826	0.9278	not sig	not sig
-1	Apr 01, 2016	0.0094	0.017580	1.52154	1.6360	not sig	not sig
0	Apr 04, 2016	0.0107	0.028346	1.73537	2.2845	not sig	sig
+1	Apr 05, 2016	-0.0010	0.027257	-0.17544	1.9649	not sig	sig
+2	Apr 06, 2016	0.0054	0.032709	0.878844	2.1528	not sig	sig
+3	Apr 07, 2016	-0.0013	0.031378	-0.21467	1.9116	not sig	not sig
+1M	May 7, 2016	0.00305	0.034435	0.492833	1.9874	not sig	sig

Abnormal returns of the pre- event window (-3 to -1) reflects the positive returns that were statistically insignificant implying little anticipation trading. On the event day, abnormal return remains statistically insignificant however cumulative abnormal returns becomes statistically significant suggesting that market reactions emerged cumulatively rather than through an immediate daily response. In the immediate post event window (+1 to +2) cumulative abnormal returns remain statistically significant indicating short term persistence of the market reaction and heightened political uncertainty. By the day 3 CAR loses statistical significance signalling the onset of market stabilization.

The +M1 window shows no evidence of persistent abnormal performance indicating that market gradually absorbed the political shock. overall finding suggests that the PSX exhibited a strong short-term reaction to the Panama papers followed by normalisation overtime.

Event 2: Disqualification of PM Nawaz Sharif

Table 4.1.2 Abnormal, Cumulative Abnormal Returns and t- statistics around the Disqualification of PM Nawaz Sharif

Event day	Date	AR	CAR	t AR	t CAR	Sig AR	Sig CAR
-3	Jul 25, 2017	0.01338	0.01338	1.08537	1.08537	not sig	not sig
-2	Jul 26, 2017	0.00471	0.01809	0.38207	1.03765	not sig	not sig
-1	Jul 27, 2017	0.00486	0.02295	0.39425	1.07486	not sig	not sig
0	Jul 28, 2017	0.00504	0.02801	0.40997	1.13584	not sig	not sig
+1	Jul 31, 2017	0.00705	0.03507	0.57236	1.27190	not sig	not sig
+2	Aug 01, 2017	0.01615	0.05122	1.31030	1.69600	not sig	not sig
+3	Aug 02, 2017	0.01377	0.06499	1.116774	1.99230	not sig	sig
+1M	Sep 02, 2017	-0.00177	0.06322	-0.1436	1.66634	not sig	not sig

During the pre-event window - 3 to -1, abnormal returns are positive but statistically insignificant indicating limited anticipatory trading. On the event day, abnormal return remains positive yet statistically insignificant reflecting a muted immediate market response and cautious investor behaviour. In the post event window abnormal returns remain statistically insignificant while cumulative abnormal returns increase steadily. By day + 3, CAR becomes statistically significant indicating a delayed but positive market reaction. +1M does not show persistent abnormal performance after statistical adjustment, suggesting that the market normalised over time. Overall results indicate a gradual and delayed market response followed by longer run stabilization.

Event 3: Faizabad Protest

Table 4.1.3 Abnormal, Cumulative Abnormal Returns and t- statistics around the Faizabad Protests

Event day	Date	AR	CAR	t AR	t CAR	Sig AR	Sig CAR
-3	Nov 22, 2017	0.00162	0.00162	0.14610	0.1461	not sig	not sig
-2	Nov 23, 2017	-0.00752	-0.0059	-0.67889	-0.3767	not sig	not sig
-1	Nov 24, 2017	0.00011	-0.00579	0.01059	-0.3014	not sig	not sig

0	Nov 27, 2017	-0.00484	-0.01063	-0.43666	-0.4794	not sig	not sig
+1	Nov 28, 2017	-0.00948	-0.02011	-0.85522	-0.8112	not sig	not sig
+2	Nov 29, 2017	0.00153	-0.01854	0.138593	-0.6840	not sig	not sig
+3	Nov 30, 2017	0.00899	-0.00958	0.811149	-0.3266	not sig	not sig
+1M	Dec 30, 2017	0.0011	-0.0084	0.1033	-0.9346	not sig	not sig

During the pre-event window, -3 to -1 abnormal returns are small and statistically insignificant indicating no evidence of anticipated trading. On the event day, abnormal return is negative but statistically insignificant reflecting the muted immediate market response and suggesting that investors do not view the protest as systematic political shock. In the post event window, abnormal return statistically insignificant while cumulative abnormal returns stay negative, the t- statistics do not reach conventional significant levels. This indicates that negative sentiments were economically limited and statistically weak. The +1M shows no evidence of persistent abnormal performance after adjustment. Overall, findings indicate that PSP exhibited minimal and statistically insignificant reactions to the Faizabad protests

Event 4: General Election 2018

Table 4.1.4 Abnormal, Cumulative Abnormal Returns and t- statistics around the 2018 General Election

Event Day	Date	AR	CAR	t (AR)	t (CAR)	Sig AR	Sig CAR
-3	Jul 20, 2018	-0.01423	-0.01423	-1.22578	-1.2257774	not sig	not sig
-2	Jul 23, 2018	-0.01888	-0.03312	-1.62642	-2.0168102	not sig	not sig
-1	Jul 24, 2018	0.021123	-0.01200	1.818808	-0.5966295	not sig	not sig
0	Jul 26, 2018	0.017634	0.00563	1.518396	0.2425017	not sig	not sig
+1	Jul 27, 2018	0.016060	0.02169	1.382857	0.8353325	not sig	not sig
+2	Jul 30, 2018	0.017494	0.03918	1.506293	1.377492	not sig	not sig
+3	Jul 31, 2018	-0.01988	0.01929	-1.71243	0.628072	not sig	not sig
+1M	Aug 31st, 2018	0.00043	-0.01423	-0.0375	7.618196	not sig	not sig

table 4.1.4 presents abnormal returns cumulative abnormal returns and their corresponding t-statistics surrounding the 2018 general elections in Pakistan. during pre-event window (-3 to -1) abnormal returns fluctuate between negative and positive values, however none are statically significant indicating the absence of strong anticipate trading by investors.

On the event day (day 0) the normal return is positive but statistically insignificant suggesting a muted immediate market response. This employs that election related information was either already incorporated into stock prices or interpreted cautiously by market participants.

In the post event window, (+1 to+3) abnormal returns insignificant throughout the event window. Although CAR positive after the event the associated t-statistics do not reach conventional significant level indicating no sustained abnormal market performance. The longer horizon post event measures further suppose these findings as both abnormal and cumulative statistically insignificant.

Event 5: Azadi arch 2019

Table 4.1.5 Abnormal, Cumulative Abnormal Returns and t- statistics around the Azadi March 2019

Event day	date	AR	CAR	t (AR)	T (CAR)	Sig AR	Sig CAR
-3	OCT 23, 2019	0.00797	0.007976	0.70182	0.70182	not sig	not sig
-2	OCT 24, 2019	0.01037	0.018355	0.91314	1.14195	not sig	not sig
-1	OCT 25, 2019	-0.0023	0.015970	-0.2098	0.81124	not sig	not sig
0	OCT 28, 2019	0.00679	0.022760	0.59745	1.00128	not sig	not sig
+1	OCT 29, 2019	-0.0011	0.021593	-0.10266	0.84966	not sig	not sig
+2	OCT 30, 2019	-0.00034	0.021250	-0.03014	0.76332	not sig	not sig
+3	OCT 31, 2019	0.013825	0.035076	1.21641	1.16646	not sig	not sig
+1M	NOV 30, 2019	0.008084	0.043160	0.71127	1.21657	not sig	not sig

table 4.1.5 presents the abnormal returns, cumulative abnormal returns and corresponding t-statistics around azadi Mars 2019. during pre event window abnormal returns are small and

statistically insignificant. on the event day, the abnormal return is positive but statistically insignificant suggesting that the immediate market response to azadi march was muted. This implies that investors did not perceive the protest as an immediate threat to market stability.

In the post window + 1 to + 3, abnormal returns remain statistically insignificant. Although cumulative returns are positive throughout the window, the t- statistics do not exceed the conventional threshold. The longer horizon post event measure + 1M shows a positive cumulative abnormal return indicating that markets stabilized following the protest. Overall, results suggest that Pakistan stock exchange exhibited resilience during azadi March.

Event 6: National Assembly Dissolution

Table 4.1.6 Abnormal, Cumulative Abnormal Returns and t- statistics around the National Assembly Dissolution

Event day	Date	AR	CAR	t AR	t CAR	Sig AR	Sig CAR
-3	April 4, 2022	-0.02734	-0.02734	-2.0077	-2.00778	not sig	not sig
-2	April 5, 2022	0.000938	-0.02640	0.06888	-1.37100	not sig	not sig
-1	April 6, 2022	0.004511	-0.02189	0.33128	-0.92815	not sig	not sig
0	April 7, 2022	-0.00700	-0.02889	-0.5145	-1.06106	not sig	not sig
+1	April 8, 2022	0.015366	-0.01353	1.12844	-0.44439	not sig	not sig
+2	April 11, 2022	0.038603	0.025071	2.83483	0.751647	sig	not sig
+3	April 12, 2022	0.006029	0.031100	0.44275	0.863233	not sig	not sig
+1M	May 11, 2022	-0.00422	0.026874	-0.3103	0.893673	not sig	not sig

In the pre-event period - 3 to -1, abnormal returns are largely insignificant. Although Day - 3 records a relatively large negative abnormal return. The absence of consistent statistically significant suggest limited anticipated trading prior to political event.

On the event day, day 0 the normal return is negative but statistically insignificant indicates that immediate market response to resolution was cautious rather than abrupt. This suggest that investors may have initially adopted a wait and see approach in response to heightened political uncertainty. Immediate post event period statistically positive normal return is observed on day + 2 indicating a short-lived positive market reaction following the dissolution. This suggest

that investors may have interpreted subsequent political development or expectations of political resolution favourably. The cumulative abnormal returns remain statistically insignificant throughout the short event window indicating the positive abnormal returns observed on day +2 was not strong enough to generate sustained abnormal performance which implies that the market absorbed the political shock relatively quickly.

Event 7: No Confidence Motion

Table 4.1.7 Abnormal, Cumulative Abnormal Returns and t- statistics around the No Confidence Motion

Event day	Date	AR	CAR	t AR	t CAR	Sig AR	Sig CAR
-3	Apr 06, 2022	0.00451	0.00451	0.33745	0.337451	not sig	not sig
-2	Apr 07, 2022	-0.00700	-0.0024	-0.52403	-0.13197	not sig	not sig
-1	Apr 08, 2022	0.015366	0.01287	1.14945	0.555881	not sig	not sig
0	Apr 11, 2022	0.038603	0.05147	2.88763	1.925224	sig	not sig
+1	Apr 12, 2022	0.006029	0.05750	0.45099	1.923664	not sig	not sig
+2	Apr 13, 2022	-0.00486	0.05263	-0.36389	1.607499	not sig	not sig
+3	Apr 14, 2022	0.007253	0.05989	0.542564	1.693325	not sig	not sig
+1M	May 14, 2022	-0.0046276	0.0480114	-0.346163	1.74567	not sig	not sig

During the pre-event window (- 3 to -1), abnormal returns are statistically insignificant, indicating limited trading. On the event day, a large positive statistically significant abnormal return is observed, reflecting a strong immediate market reaction. this suggests that invested responded favourably to the political development, possibly due to expectations of political resolution or improved policy certainty. In the post event window, (+1 to+3) abnormal returns statistically insignificant levels. Although cumulative abnormal returns remain positive, the associated t- statistics are insignificant, indicating that initial reaction was not sustained. The longer horizon post event also shows no evidence of persistent abnormal performance. Over all findings indicate that PSX experienced a sharp but short-lived reaction to the no confidence motion, followed by rapid market stabilization. Event 1: Panama Papers

Event 8: 9th May Riots, 2023

Table 4.1.8 Abnormal, Cumulative Abnormal Returns and t- statistics around the 9th May Riots

Event day	Date	AR	CAR	t AR	t CAR	Sig AR	Sig CAR
-3	May 4,2023	0.00024	0.000249	0.03979	0.039791	not sig	not sig
-2	May 5,2023	0.003630	0.003880	0.57855	0.437236	not sig	not sig
-1	May 8,2023	-0.00965	-0.005774	-1.53858	-0.53129	not sig	not sig
0	May 9,2023	-0.01078	-0.016558	-1.71847	-1.31935	not sig	not sig
+1	May 10,2023	-0.00711	-0.023671	-1.13356	-1.68701	not sig	not sig
+2	May 11,2023	0.006213	-0.017458	0.990144	-1.13579	not sig	not sig
+3	May 12,2023	0.004029	-0.013428	0.642081	-0.80886	not sig	not sig
+1M	June12, 2023	0.00018	-0.013247	0,028859	-1.21456	not sig	not sig

During the pre-event window, - 3 to -1 abnormal returns are small and statistically insignificant indicating no evidence of anticipated trading behaviour. On the event day, abnormal return is negative but statistically insignificant reflecting a cautious and mild adverse market response

Immediate post even window +1 TO +3, abnormal returns statistically insignificant while cumulative returns stay negative. Although persistence of negative CAR suggests temporary adverse sentiment, associated t- statistics do not reach conventional significance levels indicating limited impact.

The long horizon post event further confirms the absence of persistent performance as cumulative effects remains statistically insignificant. Overall, results indicate PSE experienced a short-lived statistically insignificant reaction to the 2023 political shock, followed by market stabilization.

Event 9: General Elections 2024

Table 4.1.9 Abnormal, Cumulative Abnormal Returns and t- statistics around the General Elections 2024

Event day	Date	AR	CAR	t AR	t CAR	Sig AR	Sig CAR
-3	Feb 02, 2024	0.00523	0.00523	0.4298142	0.42981	not sig	not sig

-2	Feb 06, 2024	0.00810	0.01333	0.665775	0.77469	not sig	not sig
-1	Feb 07, 2024	0.00087	0.01421	0.0718008	0.67399	not sig	not sig
0	Feb 09, 2024	-0.0232	-0.00902	-1.909170	-0.37088	not sig	not sig
+1	Feb 12, 2024	-0.0343	-0.04340	-2.823723	-1.59454	not sig	not sig
+2	Feb 13, 2024	-0.0018	-0.04528	-0.154820	-1.51881	not sig	not sig
+3	Feb 14, 2024	0.01060	-0.03468	0.871388	-1.07679	not sig	not sig
+1M	Mar 14,2024	-0.0013	-0.11079	-0.036029	-1.48754	not sig	not sig

During pre-event window, - 3 to -1 abnormal returns are positive but statistically insignificant. On the event day, abnormal return is negative and statistically insignificant. This negative sentiment intensified in the immediate post event period with a large negative abnormal return on day + 1. Although economically meaningful, it remains statistically insignificant. Cumulative abnormal returns turn negative from event day and remain negative throughout the post event window (+ 1 to + 3). However associated t-statistics remain insignificant. The longer horizon post event further confirms these findings as cumulative abnormal returns remain negative but statistically insignificant.

Event 10: Appointment of Shehbaz Sharif as PM

Table 4.1.10 Abnormal, Cumulative Abnormal Returns and t- statistics around the Appointment of PM Shehbaz Sharif

Event day	Date	AR	CAR	t AR	t CAR	Sig AR	Sig CAR
-3	Feb 28, 2024	0.00700	0.00700	0.8962	0.0792	not sig	not sig
-2	Feb 29, 2024	0.01307	0.02008	1.6737	0.1910	not sig	not sig
-1	Mar 01, 2024	0.01091	0.03099	1.3964	0.2664	not sig	not sig
0	Mar 04, 2024	0.00892	0.03991	1.1422354	0.3193227	not sig	not sig
+1	Mar 05, 2024	-0.0040	0.03583	-0.5221859	0.2711284	not sig	not sig
+2	Mar 06, 2024	-0.0017	0.03412	-0.21940	0.24665	not sig	not sig
+3	Mar 07, 2024	-0.0014	0.03265	-0.18857	0.22708	not sig	not sig
+1M	April 7, 2024	0.0005	0.03319	0.069689	0.84578	not sig	not sig

During the pre-event window - 3 to -1, abnormal returns are positive but statistically insignificant indicating limited anticipatory trading. On the event day, abnormal returns remain positive and statistically insignificant reflecting a muted immediate market response and suggesting that investors did not view the political development as a major source of uncertainty. In the post event window (+ 1 to + 3) abnormal returns slightly negative while cumulative normal returns remain positive, however, neither AR nor CAR statistically significant. The +1M shows no evidence of persistent abnormal performance after statistics adjustment. Over all the results suggest that the Pakistan stock exchange exhibited minimal reaction and rapid adjustment to February-March 2024 political event, reflecting market resilience and informational efficiency.

4.2 Data Findings

H1: Major political shocks generate statistically significant abnormal returns in the Pakistan Stock Exchange

Political stocks in Pakistan do not systematically lead to abnormal stock price movements. The market appears to incorporate political information rapidly or discounted due to the frequent occurrence of political and stability

So, H1 is rejected because statistically significant abnormal returns are not consistently observed across political events. Isolated significance does not satisfy the hypothesis of systematic market reaction.

H2: The direction and magnitude of cumulative abnormal returns differ across different types of political shocks in Pakistan.

Different political shocks carry different information content and economic implications, leading investors to react differently depending on the nature, severity and perceived consequences of the event so H2 is accepted.

H3: The Pakistan Stock Exchange exhibits quick recovery following major political shocks.

Empirical evidence from the post event and +1M windows shows that abnormal returns dissipated rapidly, indicating swift market adjustment after political shocks so H3 is accepted.

4.3 Discussion:

This study was conducted to examine the response of Pakistan Stock Exchange to major political shocks in Pakistan by analysing abnormal returns cumulative abnormal returns and

the speed of market recovery using an event study methodology. The independent variable of the study is political shocks represented by major political events such as general elections, government dissolution, no confidence motion, protests, while stock market performance serves as dependent variable and is measured through abnormal returns and cumulative abnormal returns. Daily index level data, covering the period from 2015 to 2025 were employed and a conventional 5% level of significance was applied to assess the acceptance or rejection of the hypothesis. Based on the empirical results reported in tables 4.1 to 4.10, abnormal returns around most political events were found to be statistically insignificant with only a few isolated cases showing short lived significance. This indicates that political shocks do not consistently generate abnormal returns in the market therefore, hypothesis one is rejected. However, the direction and magnitude of cumulative abnormal returns were observed to vary across different types of political shocks with some events generating positive cumulative responses while other resulted in negative reactions. This variation across event supports hypothesis H2, which is therefor accepted. Furthermore, the analysis of post event and longer horizon windows reveal that abnormal and cumulative abnormal returns dissipate overtime and do not persist in long run indicating rapid market adjustment following political stocks. Consequently, H3 which states that Pakistan stock exchange exhibits quick recovery following major political shocks is accepted. Overall, the findings suggest that although political shocks may influence short term market sentiment, the Pakistan Stock Exchange demonstrates resilience and rapid recovery, reflecting characteristics consistent with semi strong form market efficiency in an environment of recurring political uncertainty.

CHAPTER 5

CONCLUSION AND RECOMENDATIONS

5.1 Conclusion

The study set out to examine how Pakistan stock exchange response to major political shocks by analysing abnormal returns, cumulative abnormal returns and the speed of market recovery. Using an event study methodology, the research analysed a broad set of significant political events occurring between 2015 and 2025 including general elections, government dissolution, no confidence motion, large scale protests. By focusing on index level returns, the study aims to capture the overall market reaction to recurring political uncertainty in Pakistan and to provide a comprehensive understanding of how such shocks are processed by this stock market.

The empirical findings of the study indicate that major political shocks in Pakistan do not consistently generate statistically significant abnormal returns. Across most of the events analysed, abnormal returns during the pre-event, event day and immediate post even windows were found to be statistically insignificant. Although the isolated cases such as no confidence motion exhibited short lived statistically significant and normal returns on specific days. These reactions were not systematic or persistent across events. As a result, the hypothesis that political shocks generate significant abnormal returns was rejected. This suggests that investors either anticipate political developments in advance or discount political noise due to its frequent occurrence, limiting the scope for consistent abnormal price movements.

While abnormal returns were largely insignificant, the study reviews that direction and magnitude of cumulative abnormal returns vary across different political rocks. Some events particularly governance related, and institutional shocks were associated with positive cumulative abnormal returns whereas other results in negative cumulative abnormal returns. Even when these cumulative effects were not statistically significant, their directional behaviour and economic magnitude differed across event type. This indicates that investors do not react uniformly to all political shocks instead market responses depend on the nature, severity and perceived economic implications of each event. Consequently, the hypothesis proposing variation in the direction and magnitude of market reaction across political rocks was accepted.

A crucial input of the research is that the recovery of the markets after political shocks is studied, and the findings indicate that cumulative abnormal returns in longer post event windows are never statistical values in any event studied. The implication of this study is that any short term market returns die out relatively easily and do not translate into sustained abnormal performance. Through this evidence, hypothesis that Pakistan stock exchange shows recovery after such major political shocks was accepted. The findings indicate that market has a high level of adjusting, which has been achieved even though it is carried out in a setting that is characterised with high levels of political uncertainty.

Combined with the results of the study are some valuable data on the behaviour of the Pakistani stock exchange in political stress realisations, the lack of long term effects of normal returns and quick decay in short term effects draws one to the conclusion that the market possesses the characteristics of semi strong form market efficiency in that the publicly accessible political information are concurrently incorporated into the prices without affected long term distortions. The outcome suggests that political instability though operating in ability to cast the transient moods on the investor, essentially do not essentially erode the long run operations of the stock market.

Finally, the paper presents good empirical-based research that whereas political shocks in Pakistan could sway short term market sentiments, they do not sustain the abnormal returns or delayed recovery of the market. Pakistan stock exchange exhibit stability and quick adaptation to political uncertainty hence the capability to have the ability to absorb a shock without long term inefficiency. This study, through analysing various political happenings in the long period of time, would add to the literature in political risk and stock market behaviour in emerging markets and provide useful information on the twists and turns in market responses in politically unstable settings.

5.2 Practical Implications

In a pragmatic sense, the results have several implications on investors, policy makers as well as market players. To an investor, the findings indicate that aggressive response to political shocks is not always associated with sustainable abnormal firms care because the market will stabilize over time. To policy makers, the fact is that keeping institutional continuity and open flow of information can facilitate the reduction of economic effects of political uncertainty. In addition, the fact that the markets are able to rebound very quickly shows that there is a need

to build the financial markets infrastructure to further boost resilience in the occurrence of political situations.

5.3 Limitations

Although the study has made its contributions, it has some limitations. To begin with, the analysis is performed at the level of market index and does not take into consideration the heterogeneity present at the firm level, which can conceal the dissimilar reactions among the sectors or even among the firms. Second, the research is limited to the major events in politics which can be subjected to further studies and research as well which can be the inclusion of more events or different event windows. It is also possible that future research can use data on firms' level, sectoral analysis or sophisticated economic method to further investigate the mediums through which political shocks influence stock market behaviour.

5.4 Recommendations

The long-run investment decisions are made on fundamentals and less on political noise so are more likely to bring about stable returns since the market adjusts quickly. The diversification of portfolio by sectors can also minimize exposure to political uncertainty in the short run.

To policy makers and regulators, the findings underscore the need to ensure institutional continuity and open channel of communication when political instabilities exist. Uncertainty could be minimized through clear and timely dissemination of information and avoid unnecessary volatility of the market.

The confidence that the market has regarding the market can also be boosted through improving the market regulations, increasing disclosure standards, and increasing investor safeguards. The measures are such that they can assist the stock market in the absorption of the political shocks and stabilization.

Since the initial hypothesis was not significant unlike in the previous research, it is strongly advised that a bigger sample be utilized to test the findings in order to validate the findings. Will be able to apply this research in other industries or companies and find out whether the results are comparable or not.

In addition, diversifying the financial products such as hedging instruments or derivatives, would offer investors improved risk management alternative within politically unstable times.

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