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General Election, Stock Market Performance and Market Efficiency – The Case of Malaysia

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ABSTRACT

The 2008 and 2013 general election in Malaysia in retrospect had caused the turmoil of change in the Malaysian political structure. The incumbent controlling party, Barisan Nasional, had lost two-thirds majority vote in the parliament and thus failed to acquire their ultimate control over legislative power. Acknowledging the political uncertainty and puzzling the rumor of upcoming election in 2017, it is the aim of this research to investigate from retrospect the significant impact of 12th and 13th Malaysian General Election on the stock market as well as the investors' reaction in respond to the arrival of 12th and 13th Malaysian General Election. Event study methodology in conjunction with an ordinary least square regression (OLS) will be utilized to capture the impact of 12th and 13th Malaysian General Election on the stock market. Besides, the Uncertain Information Hypothesis (UIH) and the widely-used Cumulative Abnormal Return (CAR) will be employed as to determine the investors' reaction towards the General Election. There is a significant impact of 12th and 13th Malaysian General Election on the stock market. In the light of the election year 2008, investors' reactions are generally consistent with the Uncertain Information Hypothesis (UIH). However, it turned to be inconsistent with this hypothesis during the General Election in 2013. Most of the indices are found to be inconsistent with the UIH prediction. This is evidenced by the volatilities in a narrow band by most of the indices (FBMKLICI, Consumer Product Index, Finance Index, Industrial Index and Trading & Services Index, Plantation Index). On the other hand, indices on Property, Construction, Industrial Product and Technology, are aligned with the UIH prediction while the Mining Index remains opacity. Simply put, the analysis outcomes summarize that the UIH prediction does not hold in the light of the announcement of 13th Malaysian General Election results.

Keywords: General Election; Ordinary Least Square (OLS); Uncertain Information Hypothesis (UIH); Cumulative Abnormal Return (CAR)