Democratic Processes and Financial Markets: Pricing Politics

William Bernhard, David Leblang
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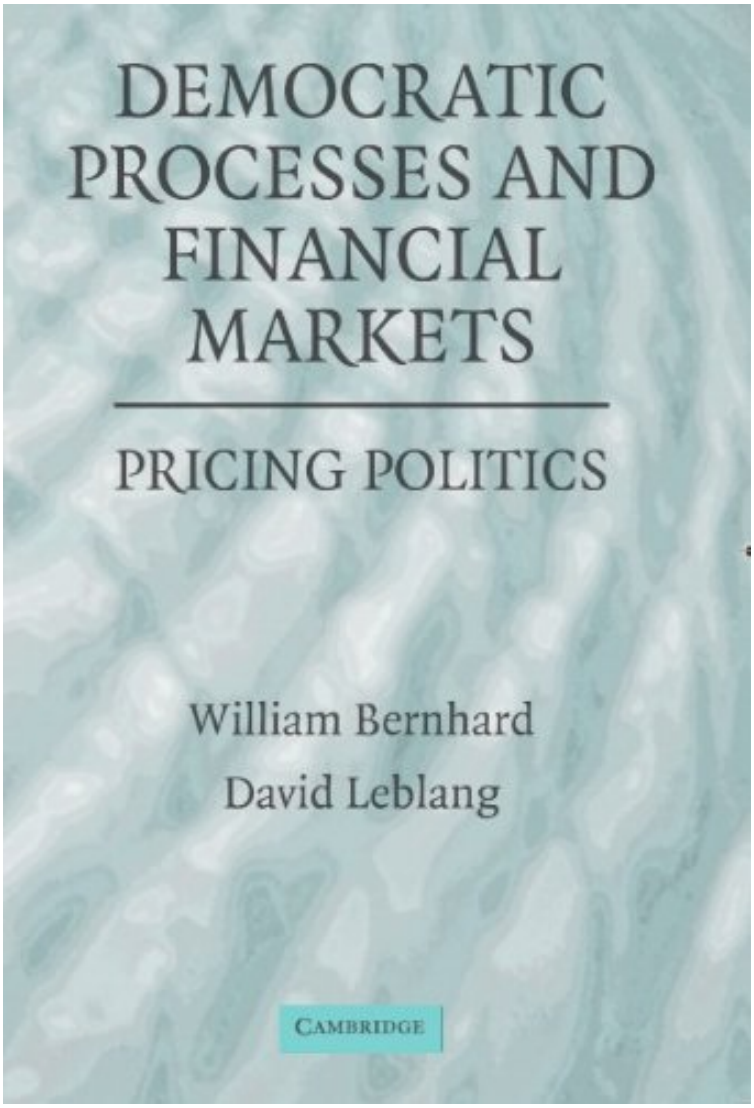

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William Bernhard, David Leblang : Democratic Processes and Financial Markets: Pricing Politics before purchasing it in order to gage whether or not it would be worth my time, and all praised Democratic Processes and Financial Markets: Pricing Politics:

The authors examine the conditions under which democratic events, including elections, cabinet formations, and government dissolutions, affect asset markets. Where these events have less predictable outcomes, market returns are depressed and volatility increases. In contrast, where market actors can forecast the result, returns do not exhibit any unusual behavior. Further, political expectations condition how markets respond to the political process. When news

causes market actors to update their political beliefs, market actors reallocate their portfolios, and overall market behavior changes. To measure political information, Professors Bernhard and Leblang employ sophisticated models of the political process. They draw on a variety of models of market behavior, including the efficient markets hypothesis, capital asset pricing model, and arbitrage pricing theory, to trace the impact of political events on currency, stock, and bond markets. The analysis will appeal to academics, graduate students, and advanced undergraduates across political science, economics, and finance.

"How and how far can asset holders turn news into predictions about politics? How far do shifts in asset prices constrain political choices? Can politicians anticipate and deal with market-induced change? The answers in this innovative book come from careful, rigorous analysis of a wide range of exchange, bond, and stock markets, covering disparate political processes in many countries. The research is at the highest standard of empirical and theoretical analysis in political economy and political science today." James E. Alt, Harvard University"Though political economy has had a wide influence in many parts of economics, the study of asset markets has largely been an exception. This book fills that gap, with its insightful and wide-ranging analysis of the effect of politics on stock, bond, and foreign exchange markets. It will be an important and much-needed addition to the bookshelves of students of politics, political economy, and finance." Allan Drazen, University of Maryland"Democratic Processes and Financial Markets is a genuinely interdisciplinary contribution of tremendous significance. Building on literatures in finance, economics, and political science, Bernhard and Leblang analyze how, in a variety of institutional and historical settings, financial traders process political information. They then produce precise estimates of the magnitudes of political risk premia and of related impacts of politics. Out of their book emerge new and profound insights about the costs of democracy in general and of political uncertainty in particular." John R. Freeman, University of Minnesota"In Democratic Processes and Financial Markets, William Bernhard and David Leblang show how the prices of financial assets - stocks, bonds, currencies - respond to such political developments as elections, cabinet formations and dissolutions, and trends in other nations. The authors make excellent use of current theoretical and empirical work in economics and political science. Their integration of approaches from the two disciplines is exemplary, and will undoubtedly influence many scholars who want to explore the interplay of economic and political phenomena. This excellent book will be a staple of the growing literature in political economy, and a model of how scholars can integrate theory and empirical work in the analysis of political and economic affairs." Jeffry Frieden, Harvard University"This path-breaking book builds on the insight that an important part of the general relationship between democracy and capitalism is the relationship between the public events mandated by democratic political institutions and the behavior of asset markets. Using modern theories of finance, economics, and political science, this book provides a rich, deep and wide-ranging analysis that will be of great interest to anyone who wants to understand fully the relationship between these dominant political and economic systems." William R. Keech, Carnegie Mellon UniversityAbout the AuthorWilliam Bernhard is Associate Professor of Political Science at the University of Illinois at Urbana-Champaign. His work has appeared in the American Journal of Political Science, the American Political Science , International Organization, International Studies Quarterly, the Journal of Politics, and the Quarterly Journal of Political Science.David Leblang is Associate Professor of Political Science and Research Associate at the Institute for Behavioral Sciences at the University of Colorado. He previously taught at the University of North Texas and at the College of William and Mary. His work has appeared in The American Journal of Political Science, the Quarterly Journal of Political Science, The International Journal of Finance and Economics, and International Organization and International Studies Quarterly. William Bernhard and David Leblang have received the Franklin L. Burdett Pi Sigma Alpha Award from the American Political Science Association and the Robert H. Durr Award from the Midwest Political Science Association.