



AN EMPIRICAL INVESTIGATION ON THE IMPACT OF  
GENERAL ELECTIONS ON STOCK MARKET SECTOR  
INDEXES: A MALAYSIAN CASE

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## ABSTRACT

Malaysia is one of developing countries that is less investigated by previous researchers of its general election impact on its stock market, provided it is a parliamentary-system ruled country. Therefore, the current study designed to investigate the effects of the 9<sup>th</sup>, 10<sup>th</sup>, 11<sup>th</sup>, 12<sup>th</sup> and 13<sup>th</sup> Malaysian General Election (MGE) on Malaysian Stock Market returns through an election cycle and political gridlock observation. This was done to study the return patterns of each index upon the arrival of the general election news at which event study methodology was used to encapsulate the impact of the event within 10 trading days before until 10 trading days after the event. Cumulative Abnormal Return (CAR) was employed to determine whether the movements are in line with the theory of either favorable or unfavorable Efficient Market Hypothesis (EMH), Uncertain Information Hypothesis (UIH) or Overreaction Hypothesis (OH). Data sample consisted of daily returns in KLCI and 9 sector indexes and proper partial period of three event windows and two estimation windows of 141 days index daily return observation, which were treated based on time-series horizon using E-Views. Findings from the current work suggests that the dim or dazzling lights in the Malaysian economy depends on the power of manifestos promised and the influential government leader in office around the event. Furthermore, the significant impact found in the 9<sup>th</sup>, 10<sup>th</sup>, 11<sup>th</sup> and 13<sup>th</sup> Malaysian General Elections only and that the Malaysian Stock Market found accepted as favorable event.