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978-0-521-86122-9 - Democratic Processes and Financial Markets: Pricing Politics

William Bernhard and David Leblang

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## Democratic Processes and Financial Markets: Pricing Politics

William Bernhard and David Leblang 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 political 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, the authors employ sophisticated models of the political process. They draw on a variety of theories 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.

William 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 Review*, *International Organization*, *International Studies Quarterly*, the *Journal of Politics*, and the *Quarterly Journal of Political Science*.

David Leblang is 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*, *International Organization*, and *International Studies Quarterly*.

Professors Bernhard and Leblang have jointly 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.

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# Democratic Processes and Financial Markets

*Pricing Politics*

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*University of Illinois at Urbana-Champaign*

**David Leblang**

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*For Jen, Raine, and Ezra*



*For Emily, Max, and Samantha*

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