

Pre and post stock market behavior during the presidential election periods in Sri Lanka

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Abstract

Studying the effect of the presidential elections on the stock market is essential because this could have a direct influence on the volatility of the stock market. During the election period, investors tend to rely on their past experience and make investment decisions. They will also use their previous election experiences to forecast market behavior during current and future elections. The main objective of this study is, therefore, to investigate the impact of the presidential elections on the market behavior of investors using all share price index of the Colombo Stock Exchange (CSE). Following a convenient sampling approach, this study used the movement in all share price index during four presidential elections that were held in 2005, 2010, 2015, and 2019. As the considering period this study uses overall 80 market days as the event window and 120 market days as the estimation period under the event study methodology. According to that this uses the constant mean return model and across that, abnormal return (AR) and cumulative abnormal return (CAR) should be calculated. The statistical significance of the CAR is tested by using the t-test. Finally, this study highlighted that there the same behavior during the 2005 and 2015 election years which are representing positive behavior prior and negative behavior after to the election date. The year 2010 represents that there is a negative behavior during both pre and post periods and year 2019 represents that there is a positive behavior during the both pre and post periods due to the election dates. Investigation of this form of study would make it more relevant for investors and other related parties to assess the effect of the presidential elections on the Sri Lankan stock market.

Keywords: *Presidential election, pre and post, stock market behavior.*