

Presidential Election and Stock Market in Taiwan

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No one could deny the interaction between politics and economy. In fact, the political events usually have great impact on financial market. Political events include policy-related events such as new policy announcement or regulation amendment and election-related events such as presidential or legislative elections. "Political economy" is the original name of economics although politics and economics are now two independent disciplines; however, the intertwining relationship between politics and economics is apparent. Political business cycle (PBC) is one of the important theories which focus on the relationship between politics and economics. In addition to policy tools used in the discussion, the PBC theory applied some other variables such as examining the reaction to the stock market of elections. In Taiwan, not only the election results but also important policy-related announcements affect the investors' expectations. In other words, investors adjust their investment behaviors according to various political events. One of the reasons that Taiwanese stock market is easily affected by politic events is that a great number of news media which broadcast around the clock and people hold huge interests on politics.

Election is considered the most powerful political event. In different election events, presidential elections have the greatest influence on the stock market; therefore, the topic has attracted many researchers. The researchers who interested in the relationship between presidential elections and stock market examined either short-term or long-term effects. The short-term effects were the changes of stock index or stock returns in the days and week surrounding presidential elections; on the other hand, the long-term effects were mostly called "presidential election cycle" which investigates the pattern of stock markets in the four-year period among presidential elections. After the economic takeoff of the 1970s with the transformation from an agricultural society into an industrial and commercial society, Taiwan had experienced the political democratization in the 1990s, from a totalitarian regime into a free and democratic country. The first direct presidential election was held in 1996; however, most people recognized the 2000 presidential election has begun a real two-party politics. The 2000

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election has marked the fledgling democracy's first peaceful transfer of power, after over half a century's rule by the Kuomintang (KMT) party-state apparatus in Taiwan.

Did Taiwan's presidential elections have influence on stock market after it turns to be a democratic country? This study is going to examine the impact which three presidential elections on the stock market after the year of 2000 both in the short-term and long-term in order to answer the question. In addition, there is a myth which says "market favors blue" existing in the Taiwanese market, ¹ this study is also going to investigate the myth. There are three hypothesis in this study: 1) There is election cycle in the Taiwanese presidential elections; 2) Taiwanese presidential elections have positive impact on stock market; 3) Stock market favors KMT in Taiwanese presidential elections. The elections will be examined are 2000, 2004 and 2008. The data is obtained from Taiwanese Economic Journal Co., Ltd from 1998 to 2010.

¹ Blue represents KMT.