

ABSTRACT

This paper shows that the Thai stock market reacts to, some of, its political activities. While anecdotal claims hint at this possibility, this paper evaluates this claim empirically. For an observation of political movements which are dissolution, elections, coup d'états and riots which took place between 1975 and 2006, 30 events are tested.

General results show abnormal return over a 1-week period before and after elections is positively significant. The next-day market after a coup attempt gives significant negative abnormal return and generates significant positive abnormal return in 2 weeks. If the coup is aborted, a negative sign is shown on the even date but not significantly and turn to significant positive abnormal return over a period of 1-week and 2-week. If the coup leads to a new government, a significant negative abnormal return occur within 1 day and change to significantly positive one over both 1-week and 2-week periods. In case of a dissolution of Parliament, the signs from three different models are non-significantly but consistent and show a positive abnormal return over 6 days and turn to negative over 11 days after the event. The market responds negatively to the massacre on October 6th 1976, but not significantly, in contrast to the riot in May 1992, which shows a significant negative abnormal return over a 1-day, and 2-day periods.

These results indicate that election gives positive impact to the market in the long term. The coup exerts a temporary negative shock but boosts the market up in a longer period. In the event of riot, the market reacts more strongly to the latest one, May 1992, than the one in 1976, at the beginning of SET trading. It shows the level of accessibility to news has improved and the market participants are getting more sophisticated. When the magnitudes of these events impacts are compared, the result is consistent with the uncertain information hypothesis (UIH), postulating the likelihood of an overreaction on bad news and underreaction on goods news.