

Policy Uncertainty and Household Stock Market Participation: Agarwal et. al

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- ▶ Policy uncertainty explains variation in households' stock market participation.

- ▶ Methodology:

- ▶ Use **elections** as a “policy laboratory” to capture variation in policy uncertainty - state governments shape local environment, and election dates cannot be affected by households.

- ▶ Results:

- ▶ Higher levels of policy uncertainty **cause** lower participation in the stock market - both on the intensive and extensive margin.

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Political risk and payoff of a stock

- ▶ Policy uncertainty is related to **government policy action**
- ▶ Political uncertainty causes an increase in stock market volatility
- ▶ Political uncertainty causes an increase in labour income risk
- ▶ Useful to see evidence that these relationships hold.
- ▶ For example - why should elections in a state affect volatility of firms that are not located in that state?
- ▶ Elections are local, but stock market is not.
- ▶ For example - what is the evidence we have on labour income volatility around elections?

The home bias literature

- ▶ Home-bias is an important feature of investor portfolios.
- ▶ If political uncertainty affects companies in the state, and investors typically only hold these companies in the portfolio, then there might be a link.
- ▶ Explore the linkages with the home-bias literature.

Is it just stock market volatility?

- ▶ It is stock market volatility that is causing the drop in participation, and not policy uncertainty.
- ▶ Find other instances of similar volatility and show that they did not cause such drops.

Elections and other events

- ▶ There might be other events at the time that affect stock market volatility.
- ▶ For example: four state elections in India - around the time of the NBFC crisis.
- ▶ How many elections are in the same year? And are these years significant for other reasons?
- ▶ Drop one year at a time (and the elections in that year), and see if the effect holds.

Some other thoughts

- ▶ Close elections
 - ▶ Close elections are related to economic downturns (Jens 2017). Perhaps the results on close elections are not to do with policy uncertainty?
 - ▶ As the level of electoral competition increases in the district, the equilibrium level of transfer to that district increases - reduces existing income disparities and promotes the growth of the middle class. (Mitra and Mitra, 2017).
- ▶ Public sector employees: not clear why they are a group that sees greater policy uncertainty at the time of elections.'
- ▶ Can you exploit the date of the election and the month of the survey?

Thank you