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The 2000 presidential election and the information cost of sensitive versus non-sensitive S&P 500 stocks☆

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Abstract

We investigate the information cost of stock trading during the 2000 presidential election. We find that the uncertainty of the election induces information asymmetry of politically sensitive firms under the Bush/Gore platforms. The unusual delay in election results creates a significant increase in the adverse selection component of the trading cost of politically sensitive stocks. Cross-sectional variations in bid-ask spreads are significantly and positively related to changes in information cost, controlling for the effects of liquidity cost and stock characteristics. This empirical evidence is robust to different estimation methods.

JEL classification: G0; G14

Keywords: Presidential election; Information asymmetry; Transaction costs; Bid-ask spreads; Adverse selection cost

1. Introduction

Numerous studies have shown that political elections affect stock markets. Herbst and Slinkman (1984), Huang (1985), Hensel and Ziemba (1995), and Santa-Clara and

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