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This article argues that advanced economies never eradicated political risk. We demonstrate that elections had large impacts on the long-term interest rates of nineteen countries in 130 elections over thirty years. Using an event-study methodology, we calculate that the resolution of uncertainty on the announcement of election results reduces interest rates. Very little of the variation is explained by economic variables. By contrast, familiar variables from comparative politics provide powerful explanations of variation in the impact of elections on borrowing rates. The biggest is ideology: the larger the swing towards the right in the parliament the larger the reduction in the interest rate. Two other variables also matter through their role in uncertainty. Close elections increase uncertainty during the campaign, leading to a greater reduction in uncertainty when the result is announced and a drop in the interest rate. By contrast, consensual institutions reduce uncertainty during campaigns and therefore do not reduce the interest rate. Political economists should not ask whether there is political risk or not. Rather they need to calculate how much risk there is and explain variation.

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Introduction

Elections are big news. Recent elections in Europe have been much bigger news than usual because of the sovereign debt crisis. The general press now focuses on two sets of numbers: the election results and the bond markets. Election reports on the Italian election of 2013 in the traditionally left-wing Guardian newspaper, hardly the financier's first choice, gave detailed information about changes in spreads (Hooper and Davies 2013). Election reports in the financial press have always mentioned the bond market, even, as in reaction to the re-election of Britain's Labour government in 2001, if only to note its apathy (Lex 2001). The contemporary bond market's obvious sensitivity to elections poses a challenge for political economy. Substantively, is the current angst about elections just a reaction to the unique characteristics of the European crisis? It is very plausible to argue that political risk has been conjured up by the Greek tragedy, the design flaws of Europe's common currency, and the inability of its leading institutions and countries to react quickly and credibly. It also seems possible that the euro crisis is just a particularly bizarre and extreme type of political risk that has varied across time, but never disappeared. The extant literature on the sovereign debt of advanced economies has tended towards the end-of-politics thesis. In this scenario, the cruciality of elections to the bond market is an aberration. We conduct event studies of 130 elections in advanced economies over the last thirty years. We demonstrate that elections did in fact continue to affect the cost of borrowing in recent decades. Moreover, variations in the impact of elections are best explained by political variables. Shifts in ideology have had particularly big and long-lasting effects, while institutions and the closeness of elections are also important.

The next section places our research in the context of the literature on sovereign debt, as well as more diverse work on the economic impact of elections. Then, we move on to describe our event study methodology. The next two sections present regressions to test explanations of variations in the impact of elections, as well as a series of robustness tests. Our conclusion considers the implications of our results for the study of sovereign debt, in particular, and political economy, in general.

Political Risk and Sovereign Debt

An influential school has argued that political risk in advanced economies largely belongs to history (Afonso and Strauch 2007; Mosley 2003, 54). Financial market constraints are supposed to be strong but narrow. Sovereign debtors need to pay very close attention to a handful of macroeconomic figures, but are free to pursue a wide range of ideological choices in microeconomic policy (Bernoth, Von Hagen and Schuknecht 2004; Katzenstein 1985; Mosley 2003, 55; Rodrik 1998). Essentially, this is because such economies are so stable and creditworthy that there is no real concern about their willingness and ability to pay. Rather, the principal risk is that of inflation reducing the value of bonds (Mosley 2003, 69). By contrast, in emerging markets, investors watch a much wider set of indicators, including politics and elections. This is due to the much greater instability of such countries and the perception that default is a real and substantial risk, which varies over time and is impacted by political events (Mosley 2003, 102-3). The strong-but-narrow thesis reflects a number of developments over the last few decades, such as the spread of an anti-inflation ideology, a more general macroeconomic consensus between left and right, and more stable energy supplies. Europe's single-currency project is clearly central to this process.

However, this sophisticated literature also has several nuances in its account of elections. The most important is that partisanship works through the macro-economy. The markets do not display naked prejudice against the left; they are only marginally concerned with ideological differences over micro-economic issues; but they will price ideology if it signals important macroeconomic differences. The treatment of elections is also somewhat non-committal. They do not matter much, save in exceptional circumstances, and, if they do matter, the way in which they do so is hard to generalize (Mosley 2003, 65). Of course, exceptional circumstances are often important circumstances. That is surely one way of viewing the euro crisis. Moreover, we find that the impact of elections can be predicted using political variables, notably ideological change.

By contrast, another influential school of political economy emphasises political risk in advanced economies and takes events seriously. Bernhard and Leblang (2006) argue that financial markets monitor the uncertainty generated by political change and adjust their investments accordingly. They investigate not just bond markets, but also stock and foreign exchange markets. While they present important findings on stocks and foreign exchange, their results for government bonds are much weaker. They use a spatial model to identify whether there is a strong party that is well placed to feature in any ideologically connected coalition government. However, this measure does not predict bond yields (Bernhard and Leblang 2006: 78, 84). However, they present some evidence for the effect of uncertainty on foreign bond markets (Bernhard and Leblang 2006: 101-2) and in case studies of newspaper reports on coalition negotiations in New Zealand (Bernhard and Leblang 2006: 161-2) and Austria (Bernhard and Leblang 2006: 157). Bernhard and Leblang do not identify consistent ideological effects on bond yields or other variables (2006: 34, 76, 78, 100, 101-2).

Other research has shown major political effects on bond yields. Moser (2006) has argued that a change of finance minister can change the interest rate in Latin American countries. Block and Vaaler (2004) demonstrate that elections influence the interest rate and the credit rating in developing countries. Furthermore, Vaaler et al. (2005) show that bond markets charge higher interest rates to incoming left-wing governments. Events also matter in developed countries and several papers employ an event study similar to ours. Jayachandran (2006) suggests that an unexpected shift in the in the control of the US Senate affected firms differentially according to the partisanship of their political donations. Moreover, a range of papers demonstrate that ideology does matter to financial markets in developed countries. Sattler (2013), Fowler (2006), Bechtel (2009), Bechtel and Füss (2008) and Leblang and Mukherjee (2005) discover major partisanship effects of elections on stock markets. Kuttner and Posen (2010) discover that the chairmanship of the central bank can influence the exchange rate, but not bond yields. While much of the literature, along with the credit rating agencies, dismissed political risk in advanced economies, our research is consistent with a handful of articles that have emphasised continued, albeit lower, political risk in developed economies' bond markets in recent decades (Hallerberg and Wolf 2008; Breen and McMenamin 2014).

The difference between this paper and existing research is partly a matter of research design and technique. Many scholars seek to capture the relative importance of political, macroeconomic and microeconomic factors in the long-term (Garrett and Mitchell 2001; Oatley 1999). In this context, it is appropriate to employ a panel approach, measuring bond yields at monthly or quarterly intervals. Bernhard and Leblang study extended periods of political change encompassing electoral

campaign and government formation lasting up to 141 days (Bernhard and Leblang 2006: 66). We conduct event studies employing daily bond yields. Our approach is clearly much better designed to capture the impact of elections, which take place over one or two days. Nonetheless, the difference is not just methodological. We show that elections have had a very substantial impact on bond yields over the last three decades. Markets follow elections and price political risk from day to day. We also demonstrate that the effects are not ephemeral and last for at least two months after the election. Moreover, this variation is not idiosyncratic and can be explained using the tools of comparative politics.

We test three political hypotheses. The first two are measures of uncertainty. The closer an election the more difficult the result is to predict. Therefore, close elections are more uncertain. Uncertainty is a risk, so yields rise. When uncertainty is resolved, yields fall. After uncertain elections, bond yields should fall. Investors know the composition of the new parliament and re-enter the market. Demand for the bonds rise and the interest rate falls. So, our first hypothesis is that close elections should reduce the interest rate. Uncertainty varies systematically across political systems. In majoritarian systems, elections are expected to lead to substantial changes in the composition of the parliament and the government. By contrast, in consensual systems, elections often lead to only marginal changes in the representation of parties in the parliament and government. Therefore, pre-electoral uncertainty should be greater in majoritarian systems and the resolution of uncertainty occasioned by the election result should also be greater. Our second hypothesis is that elections in majoritarian systems should reduce the interest rate. Investors are not interested in political change in itself but only in so far as it influences the value of their investments. Partisanship is the dominant cue for policy change in Western democracies. The left-right division identifies parties' attitudes to the relative role of the state and the market and their emphasis on socio-economic equality. It should also send a message about parties' relative emphasis on the protection of the value of capital. The left should target lower unemployment at the expense of higher inflation and the right lower inflation at the expense of higher unemployment (Hibbs 1977). In this traditional account then, the markets should welcome right-wing parliaments with a lower interest rate. Of course, there is a massive debate about the extent to which left-wing parties have been constrained by capitalism and globalisation (Giddens 1998; Kitschelt 1999). In past decades, left-wing governments could avoid right-wing at least some macroeconomic prescriptions through the manipulation of policies like capital controls and exchange-rate policies (Oatley 1999), which are now of marginal relevance. The end-of-politics thesis argues that left-wing parties are resigned to protecting the value of capital and will pursue the handful of macroeconomic indicators that are most important to bond markets. Doing so gains them space to make microeconomic and distributive policies without the interference of the markets. Our third political hypothesis is that the greater the shift to the right heralded by an election the lower the interest rate. The next section outlines how we measure the impact of elections on sovereign bond interest rates.

Event Studies and Bond Markets

We estimate the impact of elections on sovereign bond yields using the classic event-study methodology. We do not measure simple changes in yields before and after elections. Instead, the essence of this technique is to posit the counterfactual: the yield of the bond if the election had not happened. In event studies, this is known as the normal return. The abnormal return, then, is the difference between the actual yield and the normal return (Campbell, Lo and Mackinlay

1997: 151). We establish a normal return by regressing the yield of the bond in question on the yield of United States bonds. The US bond is generally the most liquid and the safest sovereign bond. Moreover, the US long-term interest rate is widely acknowledged as a driver of the overall sovereign bond market and an indicator of the state of the world economy (Longstaff, Pan, Pedersen and Singleton 2011: 83). The period for which we regress the bond of interest on its US counterpart is called the estimation window. For each election in our dataset, the estimation window consists of the period between one month and six months before the election. This consists of 100 trading days in most cases. We exclude the last month before the election to reduce contamination from campaign effects. Since it takes markets some time to assimilate new information, we specify an event window of five days after the election. We then cumulate the abnormal returns over these five days to give us the cumulative abnormal return (CAR), which in this article, as in the majority of event studies, serves as our dependent variable. In addition, we also follow the CAR for periods up to forty trading days (about two months) after the election.

We estimate the CAR using daily yields on ten-year benchmark bonds from Datastream, which for most rich countries date back to the 1990s and 1980s (Kuttner and Posen 2010: 360). For some countries, we lengthen the time series somewhat by using another long-term bond that we can show correlates at over 0.97 with the benchmark bond. We exclude the US, as its long-term interest rate serves as the regressor for the calculation of the normal return. Moreover, its presidential system is difficult to compare to the parliamentary systems of other rich countries. Our sample consists of Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom. We test the impact of elections to the lower house of the legislature, of which we have 133. This is more than twice as many as previous studies of advanced economies (Bernhard and Leblang 2006: 78). Since we analyze 140 days of yields for each election, this means that 18,480 observations underpin our dependent variable.

We establish a credible normal return, compared to the minority of event studies that report the relevant statistics (Demir and Danis 2011; Geranio and Zanotti 2010; Gilligan and Krehbiel 1988; Kuttner and Posen 2010; Roberts 1990). For example, our average R-squared of 0.46 is almost three times that of Jayachandran's (2006) study of political donations and the US stock market. The average election reduces the interest rate by 0.22 per cent. The standard deviation is 2.1 per cent. The election which brought about the greatest fall in the interest rate was the Danish election of 1984 with a CAR of -5.77. This extreme number reflects the high stakes of that election. The government had called an election after its budget had been defeated. The government managed to increase its representation by three seats. The main opposition party, the centre-left Social Democrats were the greatest losers and the Conservative People's Party of prime minister Poul Schlüter achieved their best ever result. The government received a mandate to continue its austerity policies aimed at easing the public debt crisis Denmark was suffering at the time. The greatest increase in the interest rate came after the Japanese election of 1990, which had a CAR score of 5.66 per cent. Although this election saw the conservative Liberal Democratic Party (LDP) once again retain power, there was a massive shift towards the left. The Socialist party gained 51 seats, while the LDP lost 20.

Overall, elections resolve uncertainty and the interest rate falls. Of course, this masks great variation. In many elections the CAR is very close to zero. In others it suggests a substantial fall or rise in investor confidence. Elections matter to the bond market. Bond yields do not appear to continue placidly along their pre-election trajectory. Instead, investors pay attention to elections and adjust their risk assessments accordingly. Nevertheless, we do see a noticeable fall in political risk over time. Figure 1 illustrates the CAR for each election in our sample from 1980-2009. In particular, it shows less volatility in the CAR after the introduction of the euro in 1999. However, the average election continues to have substantively important effects on the interest rate. The question is not "Does politics matter or not?" but rather, "How much does politics matter?" This, of course, raises the second more interesting question of "Why does politics matter?" In the next section, we test our three political hypotheses on the closeness of elections, institutions and partisanship. Before doing so, we need to introduce our research design.

[FIGURE 1]

Explaining the impact of elections on interest rates

Our units of analysis are elections. This requires a different research design to most work in political economy. We explore events, not ongoing processes, as in panel analysis, or states, as in cross-sectional analysis. The dependent variable is the CAR, which estimates the five-day impact of an election on the long-term interest rate. This means we do not have to address the many complications of time-series analysis but also, perhaps more subtly, the annual, and even quarterly, macroeconomic variables that dominate the literature are of limited applicability. None of these variables changes during the event window or indeed over the election campaign itself. Moreover, there will be little change over the five months of the estimation window. Focusing on a short period controls for economic variables. The market was aware of the overall economic situation before the election, just as it was afterwards. The economy has already been factored into the normal return. Nonetheless, it is possible that economic and financial variables can serve as broad contextual variables for event studies of elections.

The economic variables we test are usually used to explain variations in yields, not variations in the impact of events. We think of negative figures as indicating uncertainty. The more negative are the national macroeconomic statistics the greater is the resolution of uncertainty occasioned by the election. In economic bad times, elections should reduce the CAR. In panel studies of sovereign bond yields, it is typical to include a very large range of economic and financial variables. We adopt a more parsimonious approach because these variables are not as relevant to our research question. Moreover, since we have fewer observations than in the more general literature, we need to conserve degrees of freedom. There are four basic strategies available to sovereign debtors, each of which we measure (Baldacci and Kumar 2010). First, they can repay their debts. To do this they need to manage income and expenditure to maintain a healthy fiscal balance. Second, they can shrink their debt in relation to national income by growing the national economy. Third, they can shrink the value of the debt by inflating the economy. Fourth, the larger the debt in relation to national income the greater is the temptation to default. This gives us our four economic variables of the fiscal balance as a percentage of GDP, GDP growth, inflation,

and debt as a percentage of GDP. Each is measured annually, as quarterly data loses too many observations. In our later robustness tests, we also include a much wider range of economic and financial variables.

We test three political arguments: the closeness of elections, institutions, and ideological change. Close elections increase investor uncertainty. The results of close elections resolve uncertainty. Therefore, the interest rate should drop. The closer the election the smaller is the expected CAR. Since the number of parties varies across our elections, we need a flexible measure of closeness. We use the competitiveness index (Endersby, Galatas and Rackaway 2002: 614-615):

$$c_k = k^k \prod_{i=1}^{k} p_i \text{ ,}$$

where the c is the competitiveness of the election; k is the number of parties; and p_i is the proportion of votes received by party i. The statistic is bounded between 0 and 1 and elections with larger values are closer.

Ideology refers to changes in the ideology of the assembly. The measure is derived from the Comparative Manifesto Project, which has content analysed manifestoes for all of our elections. In particular, we use the RILE variable, which calculates a score on the left-right axis from the relative emphasis on left and right-wing policies in the manifestoes (Budge et al., 2001:21). We sum the RILE scores of each party, weighting them by the party's proportion of seats in the legislature:
Ideology = ∑{(Left-Right)*(#Seats/Total)}
Our variable is the difference in ideology between the incoming and outgoing legislatures. Positive values indicate a shift to the right and negative values indicate a shift to the left.

The more majoritarian the political system, the greater is the change in the distribution of power brought about by elections. In majoritarian systems, election campaigns introduce more uncertainty than in consensual systems. Consequently, in majoritarian systems, election results resolve more uncertainty than in consensual systems. Election results in majoritarian systems should be greeted by a fall in the interest rate. Therefore, we predict that the more majoritarian the political system, the smaller the CAR should be. We use Lijphart's notion of joint power to distinguish between consensual and majoritarian polities. Similar ideas are very common in comparative politics (Armingeon, 2002, Powell, 2000, Tsebelis, 1995, Tsebelis, 2002). Lijphart's alternative, more concrete name for joint power is the "executives-parties" dimension. His indicators of joint power target the executive, legislative and partisan actors that have the greatest influence over fiscal policy. Our measure of concentration is a weighted index of the effective number of parliamentary parties, concentration versus power-sharing in the cabinet, executive-legislative relations, electoral disproportionality and interest group pluralism (Lijphart, 1999).[1] In order to efficiently leverage variation, we use principal components analysis to summarize the

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[1] To construct this variable, we draw on several data sources, including the Comparative Manifesto Project, Lijphart 1999, and the authors' own calculations. We could not use Lijphart's original measure of executive-legislative relations due to data limitations. Instead, we constructed an index that measures the degree to which cabinet government is fractionalized along party lines,

measures.[2] The larger the score the more majoritarian is the political system. Please see Appendix 1 for descriptive statistics in relation to all variables.

We estimate our models using feasible generalized least squares (FGLS). This approach is appropriate for a dependent variable that is an estimate (Lewis and Linzer 2005). The smaller the standard error of the CAR, the greater is the weight of the election in the regression. Table 1 presents a series of models. Since public debt data is missing for so many elections, we present each model with and without debt as a percentage of GDP. Consistent with our theoretical and methodological discussion, economic factors do not explain much of the variation in the impact of elections on sovereign borrowing rates. Inflation is insignificant in all equations. Growth is significant in most of the equations including political variables. It increases the CAR, consistent with the idea that in good economic times, there is less investor anxiety to be resolved by election results. Fiscal balance is significant and in the right direction for models one and two, but loses significance when political factors are included. Debt is significant in model 1, which only contains economic variables. However, a greater debt increases the CAR, which contradicts the hypothesis that in economic bad times, uncertainty will be greater in electoral campaigns and therefore elections will resolve more uncertainty, leading to a drop in the interest rate. There is a huge increase in the proportion of variation explained when the three political variables are added. The R-squared jumps by a factor of well over three for model 3, which includes debt, and by a factor of over four for model 4, which leaves out debt and has nineteen per cent more observations. The coefficients for all political variables are in the predicted direction and statistically significant at one or five per cent in each equation. There is little difference between model 3, which includes debt, and model 4, which does not. Moreover, the effects are substantively important. Moving from the least close to the closest election reduces the CAR by 1.34, a very large number in the world of interest rates. Even a change of one standard deviation changes the CAR by 0.33. Similarly, a one standard deviation increase in the concentration of power reduces the CAR by 0.41 and a one standard deviation shift to the right reduces the CAR by 0.94, holding other variables constant at mean values.

[TABLE 1]

Interactions between the political variables are highly plausible in theory. However, we find little evidence to support interactive effects. The interaction of ideology and institutions is significant in model 6 which includes debt, but this effect disappears in model 7, which excludes debt and has more observations. Since we are interacting two continuous variables the coefficient is virtually impossible to interpret. Figure 2 graphs the interaction. It shows that the effect of ideology is even stronger in political systems where power is more concentrated. We found no evidence for other interactions and, thus, do not report them here.

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capturing most of the original index, namely the relationship between the executive and the legislature, as cabinets that are not fractionalized tend to dominate the legislature.

[2] An unweighted mean, as used by Lijphart (1999:247), produces similar results to those reported below.

[FIGURE 2]

Our equations provide strong support for the importance of political risk in the sovereign debt of advanced economies. Indeed, the results are stronger than they look because our methodology is biased towards a false negative, rather than a false positive. Firstly, elections are hardly unexpected events. They are subject to intense analysis and speculation. In other words, markets will have priced in the election result before it happens, so the CAR should be biased downwards. Second, it is important to remember that our dependent variable is a deviation from the expected development of interest rates as predicted by US long-term interest rates, not simply observed changes in the interest rate. This also suppresses variation. Thirdly, the FGLS procedure assigns less weight to CARs with large standard errors. These are likely to be exactly those elections where the CAR itself is large, the exceptional elections where politics is most likely to be relevant. In spite of the built-in conservatism of our methodology, we proceed to conduct a further series of robustness tests in the next section.

Robustness tests

We test our conclusions using alternative measures of the dependent variable, independent variables and a wider range of economic controls. In Table 2, we show that our results are robust to a wider range of economic variables. We use Model 4 from Table 1 as a benchmark, as it combines relative parsimony with a large number of observations. We include unemployment as it is a good indicator of economic crisis, fiscal stress and the ability of a democracy to enact austerity. The US interest rate provides a measure of global risk appetite (Longstaff et al. 2011: 83). The current account balance as a proportion of GDP is a good proxy for a country's vulnerability to debt crisis (Lane 2012: 53). Finally, we include the square of the fiscal balance to test the very plausible hypothesis that the effect of the fiscal balance is non-linear. The unemployment coefficient is negative and significant at the very modest ten per cent level. This is consistent with the idea that the resolution of uncertainty occasioned by an election is particularly welcomed by markets in economic bad times. The addition of unemployment does not materially change the political variables. None of the other economic variables reach statistical significance or change the interpretation of the base equation. Table 3 introduces an alternative measure of political institutions, the Political Constraints dataset (Henisz 2002). The greater the number of constraints, the smaller should be the reduction of the interest rate in the aftermath of elections. This hypothesis is confirmed. More importantly, there is little change to our principal finding that the bond markets welcome shifts to the right.

[TABLE 2]

[TABLE 3]

Finally, we extended the event window one day at a time to a maximum of forty days. Figure 3 graphs the marginal effect of our political variables over these different event windows. The left-hand panel shows the evolution of the institutional effect as the election recedes into the past. While the estimate remains below zero, after two weeks the confidence interval has widened so much that it is no longer statistically significant from zero. There is very similar pattern for the impact of the closeness of elections in the right-hand panel. Once again, ideological change stands out. Not only does the estimate steeply move downwards, the confidence interval moves further and further from zero. In other words, the effect of

ideological change continues to cumulate over time. Two months after an election the effect of ideological change is still not only present but is increasing.

[FIGURE 3]

Conclusions

The reactions of bond markets to elections are crucial to understanding the political economy of capitalism and democracy. Government bonds are the principal measure of the financial markets' assessment of a government: the bond market "passes a daily judgment on the credibility of [every government]" (Ferguson 2008, 69). Elections are the major political event in democracies. Elections make big news in the financial press, and not just in terms of political winners, but also in terms of winners in the financial markets. Political risk can be reduced; it cannot be eliminated. The effects of elections on bond yields are far from idiosyncratic and can be explained by familiar variables: ideological shifts, the closeness of elections, and a country's overall institutional configuration. The effect of the closeness of elections is the most intuitive. A close race increases uncertainty during a campaign, which is then resolved by the election result. Investors that have left the market until the restoration of certainty return and the interest rate falls. The result in relation to institutions is much less obvious and has some major consequences. Consensual countries are less exposed to political risk. Their lower vulnerability to elections is perhaps one of the reasons why consensual countries have an overall advantage in the sovereign debt market (Breen and McMenamin 2014; Saiegh 2009). Political institutions reflect constitutional rules and deeply embedded party and interest group systems, so this might be a virtually permanent weakness for majoritarian countries. The strongest political effects come from shifts in the ideological composition of assemblies. This also poses a problem for democracies, suggesting that the left and capitalism have yet to settle their differences. It is an interesting and vital question whether this reflects an accurate appraisal of left-wing political preferences by bond markets or an ongoing failure to understand the left's macroeconomic stance. Our models and the euro crisis show that misunderstandings between incoming parliaments and holders of sovereign debt can be both expensive and downright dangerous.

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Table 1: Explaining variation in the CAR

VARIABLES	MODELS					
	1	2	3	4	5	6
Inflation	-0.02	-0.06	-0.02	-0.02	-0.04	-0.03
	(0.08)	(0.08)	(0.06)	(0.07)	(0.04)	(0.06)
GDP growth	0.10	0.10	0.15**	0.18**	0.15**	0.18**
	(0.06)	(0.07)	(0.07)	(0.07)	(0.06)	(0.07)
Fiscal balance	0.08*	0.05*	0.04	0.01	0.07	0.02
	(0.04)	(0.03)	(0.04)	(0.03)	(0.04)	(0.03)
Gross Debt	0.01**		0.01		0.01	
	(0.00)		(0.00)		(0.00)	
Closeness			-1.62**	-1.66**	-1.70**	-1.69**
			(0.62)	(0.64)	(0.61)	(0.63)
Concentration			-0.23**	-0.29***	-0.20**	-0.29***
			(0.09)	(0.10)	(0.08)	(0.09)
Ideological change			-0.31***	-0.32***	-0.24***	-0.30***
			(0.10)	(0.09)	(0.08)	(0.10)
Ideology X concentration					-0.21**	-0.07
					(0.09)	(0.08)
Observations	112	132	108	128	108	128
R-squared	0.050	0.040	0.178	0.164	0.218	0.168

Notes: Estimated by Feasible Generalized Least Squares (FGLS) with Lewis and Linzer's (2005) procedure. Standard errors are in parentheses. Errors cluster on countries;*** $p<0.01$, ** $p<0.05$, * $p<0.1$.

Table 2: Additional economic variables

VARIABLES	MODELS			
	1	2	3	5
Inflation	-0.00	-0.05	-0.01	-0.02
	(0.09)	(0.06)	(0.09)	(0.07)
GDP growth	0.18**	0.16**	0.17*	0.18**
	(0.08)	(0.07)	(0.09)	(0.07)
Fiscal balance	-0.02	0.02	0.02	0.02
	(0.02)	(0.03)	(0.03)	(0.03)
Closeness	-1.80**	-1.59**	-1.59**	-1.67**
	(0.69)	(0.68)	(0.66)	(0.63)
Concentration	-0.22**	-0.28***	-0.33**	-0.32***
	(0.09)	(0.09)	(0.15)	(0.11)
Ideological change	-0.29**	-0.33***	-0.31***	-0.31***
	(0.10)	(0.09)	(0.10)	(0.09)
Unemployment	-0.12*			
	(0.06)			
US lending rate		0.10		
		(0.09)		
Current Account			-0.03	
			(0.04)	
Fiscal balance squared				-0.00
				(0.00)
Observations	124	128	123	128
R-squared	0.175	0.175	0.142	0.169

Notes: Estimated by Feasible Generalized Least Squares (FGLS) with Lewis and Linzer's (2005) procedure. Standard errors are in parentheses. Errors cluster on countries;*** $p<0.01$, ** $p<0.05$, * $p<0.1$.

Table 3: Alternative measure of institutions

	(1)	(2)
Inflation	-0.03	-0.03
	(0.06)	(0.07)
GDP growth	0.14	0.17*
	(0.08)	(0.09)
Fiscal balance	0.06	0.03
	(0.05)	(0.04)
Gross Debt	0.00	
	(0.00)	
Closeness	-2.18*	-2.30**
	(1.05)	(0.98)
Polcon	2.88*	3.59**
	(1.41)	(1.37)
Ideology	-0.32**	-0.33***
	(0.12)	(0.10)
Observations	101	121
R-squared	0.192	0.174

Notes: Estimated by Feasible Generalized Least Squares (FGLS) with Lewis and Linzer's (2005) procedure. Standard errors are in parentheses. Errors cluster on countries; *** $p<0.01$, ** $p<0.05$, * $p<0.1$.

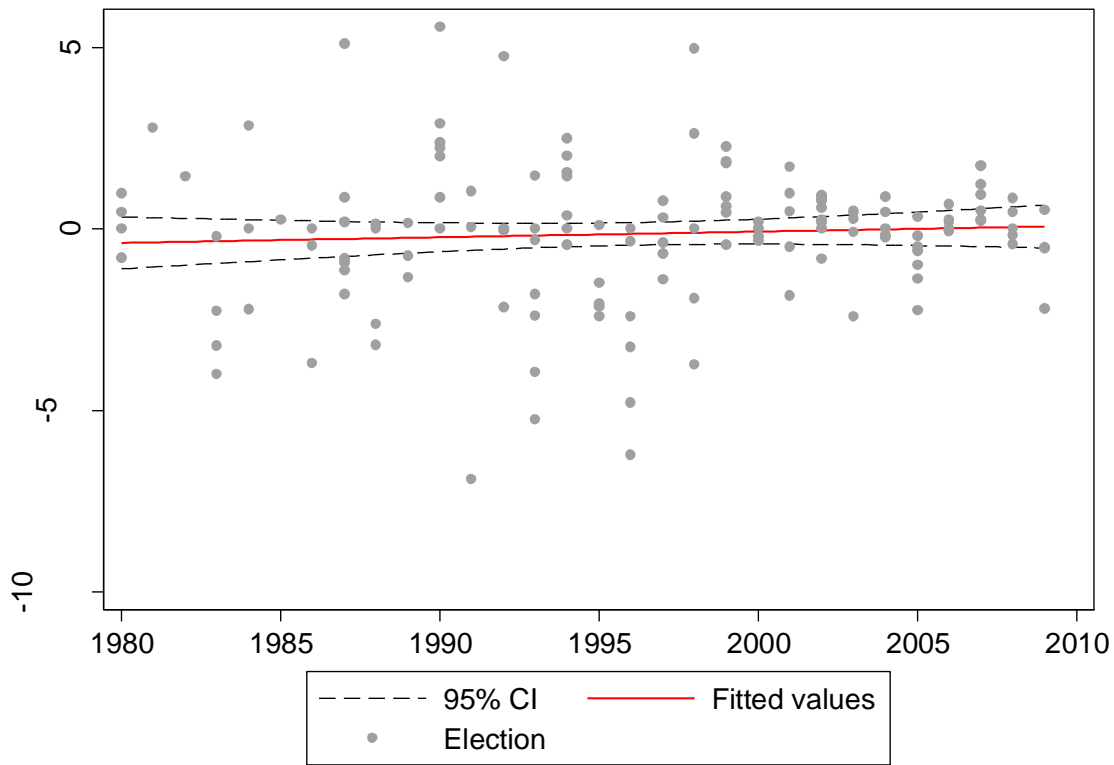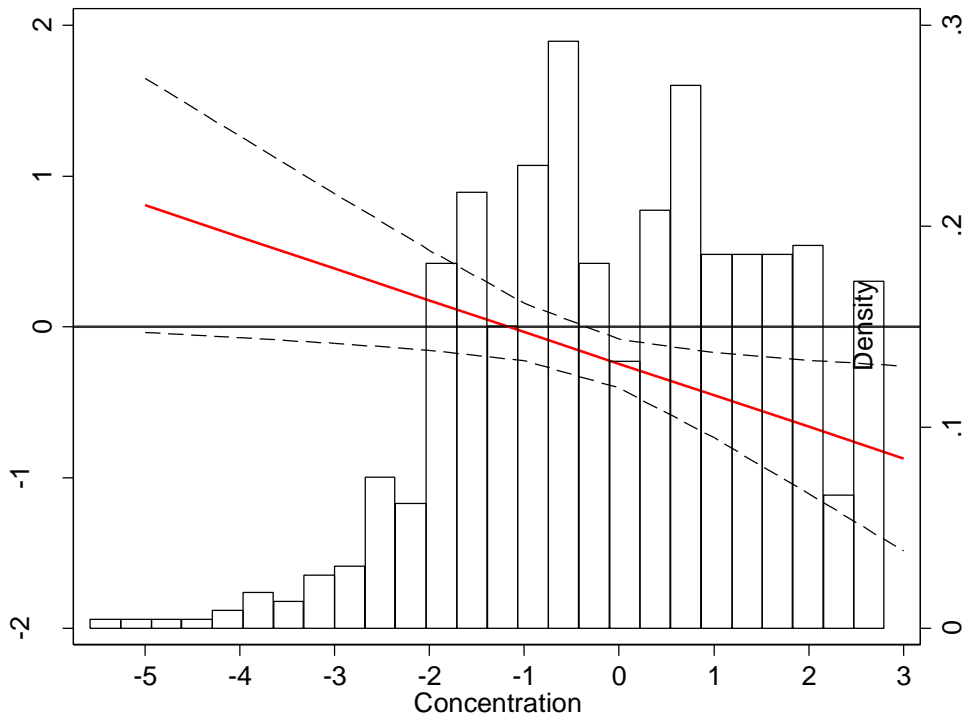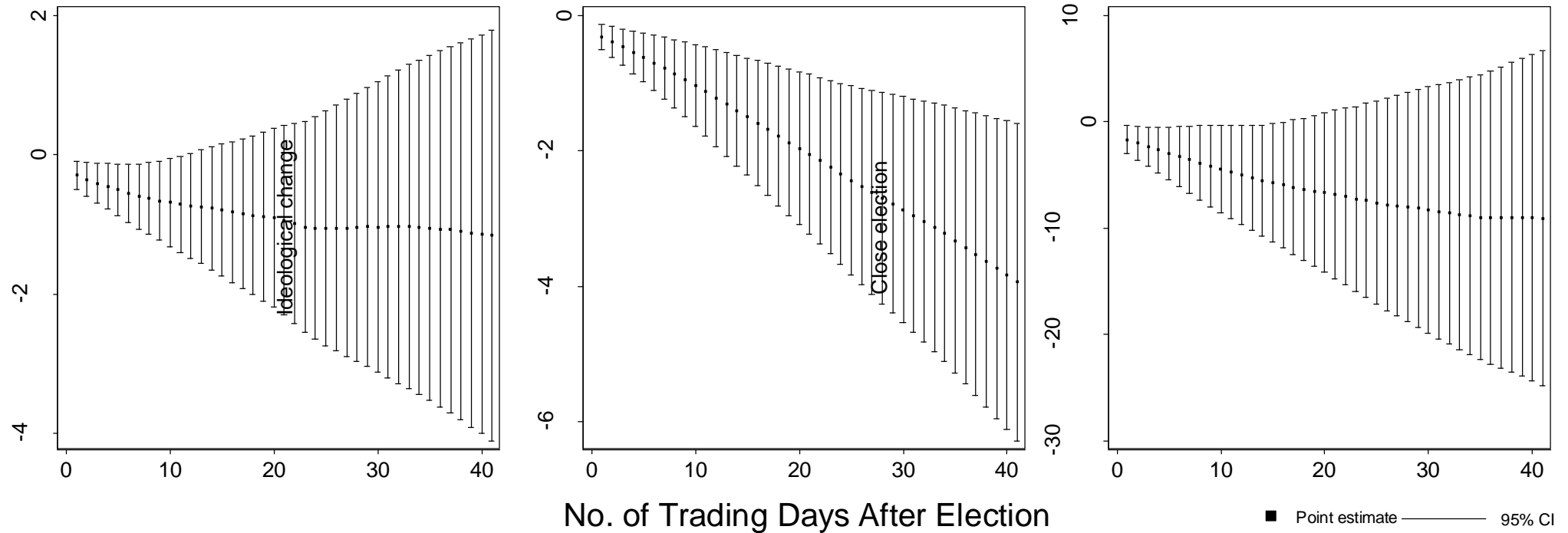**Figure 1: The impact of elections on interest rates over time**

Figure 2: The interaction of ideological change and concentration

Note: This graph is derived from the estimates in Model 4 in Table 1.

Figure 3: The impact of political variables over different event windows

No. of Trading Days After Election

Note: This graph is derived from Model 4 in Table 1, extending the event window one day at a time.

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Appendix 1: Descriptive statistics

	Obs.	Mean	SD	Max	Min	Source
Dependent variable						
Cumulative abnormal return (CAR)	137	-0.16	2.016	5.55	-6.89	1
Political variables						
Concentration	137	-0.28	1.41	2.16	-5.571	2, 3, 4
Closeness	136	0.19	0.2	0.99	0.00	5
Ideology	133	-.012	1.9	5.58	-6.17	5
Polcon	129	0.48	0.09	.71	0.24	6
Economic and financial variables						
Fiscal balance/GDP	136	-1.35	4.37	19.69	-10.37	7
Inflation (%)	133	3.22	3.07	20.55	-1.35	7
Unemployment (%)	132	7.12	3.69	22.64	.79	7
Current account/GDP	131	0.81	4.99	16.27	-10.04	7
General gross debt/GDP	113	60.6	35.08	217.60	6.34	7
GDP growth (%)	137	2.41	2.46	11.49	-7.28	7
US 10-year bond (%)	136	7.78	2.46	17.15	3.25	1

Notes. 1: Datastream (2012); 2: Budge et al. (2001) and Klingemann, Volkens, Bara, Budge and MacDonald (2006); 3: Lijphart (1999); 4: Authors' calculations; 5: Beck, Clarke, Groff, Keefer and Walsh (2001); 6: Henisz (2002); 7: World Economic Outlook (2009).