



College of Graduate Studies & Scientific Research

M.B.A. Program

**The Impact of Political Events on Palestine Securities Exchange
Returns :An Empirical Study Between (1997-2016)**

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This thesis is submitted in partial fulfillment of the requirements for the degree of Master of Business Administration “MBA”, at the College of Graduate Studies and Academic Research, Hebron University, Palestine

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Approval Sheet

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This Thesis was Successfully Defended on **11 October,2018**and approved by:

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Dedication

To My Loving Family

My mom: Srya Abu Omar

My sweet little Niece: Joleen Qawasmi

With all my love and respect

My father Maher Abu Omar

My sister and close friends

Acknowledgments

In the name of Allah, the most gracious the most merciful. All praise and thanks are certainly due to Him, for all the blessings given to me throughout my life, especially during this Master degree journey.

The road leading to this point in my life has been paved and blessed by many people. Although I am the author of this work, this accomplishment would not have been possible without the support of many people. Therefore, I gratefully acknowledge and sincerely thank all of them people for their help and great contributions.

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Finally, yet importantly, to those to whom I am indebted, but are too numerous to be named, thank you very much.

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Certificate of Editing MA Thesis

To Who it May Concern

This is to certify that, the Master thesis titled:

**“The Impact of Political Events on Palestine Securities Exchange
Returns: An Empirical Study between (1997-2016)”**

By the researcher:

“Subhi Abu Omar”

Has been edited and proofread for the English language usage by Mr. Abd El-Karim Haddad.

The editor shall bear no responsibility over the contents of the thesis.

Abd El-Karim Haddad,

Editor, Sworn Translator

Abstract
The Impact of Political Events on Palestine Securities Exchange
Returns: An Empirical Study between (1997-2016)

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This study aims at testing the effects of political events on Palestine securities exchange returns: The study uses window events methodology to establish the behavior of stock return between (1997-2016). The event window constricted one day, 10 days, 15 days, and 20 days before and after the event. The study uses Standard Deviation Test, Skewness Test and Kurtosis Test. Additionally, the political events were divided into two categories, namely favorable political events and unfavorable political events. The data consisted of 7481 observations collected from (1997 to 2016). The mean value for logarithmic returns was 0.0002333 with a minimum value of -0.16956 and maximum value of 0.18336. The disparity in the minimum and maximum values for the data shows the wide range in stock returns on different days. The standard deviation is 1.057854 % which means that the data has some deviations from the average value. Also, Kurtosis of 32.188 suggested the data to be slightly leptokurtic. The data has a skewness of 0.495, which is close to 0 suggesting the data to be normal. The overall results indicated that both favorable and unfavorable political events had no effect on Palestine securities return. This research is significant due to its longer period, larger sample, and enough background information to help investors make suitable decisions about entering such an emerging market, such as that of PEX. Moreover, analysis can be made on the industry level. The study can also examine the impact of these events on individual stock or/and portfolios. After concluding both companies and the PEX, the research provides more details and explanations about the reasons behind share price movements. This research can help investors in anticipating market performance by understanding the nature of the event. Further studies could be conducted by including more events relating to various sectors of society such as economic, military and events relating to neighboring countries. Researchers can

expand their research by adding more political events to this model. Moreover, analysis can be done on the industry level to separately inspect separately the impact of these events on individual stock or on portfolios.

CHAPTER ONE

BACK GROUND

1.1 INTRODUCTION

Undoubtedly, political events in the contemporary world greatly affect stock market of every country. Their impact, which is fundamental for economy as a whole, can be found easily on micro- and macro-levels of the economic system. Recently, there were a huge number of significant political events that affected the majority of life aspects inside and outside countries. Their essential exposure on prices of trading assets was also repeatedly admitted. This is the reason why the precise estimation of such events is a vital component of successful operation in the market for both investors and market specialists.(Center for Strategic and International Studies, 2017)

As a source of systematic risk, the political risks one of the determinants of market risk premium (Andrade, 2009), a major determinant of domestic and foreign investment decisions, and a variable that can explain disparities of stocks' returns between different countries. The changes in the political risk's level will be reflected on the performance of the stock market in the form of fluctuations in stocks' prices, returns and their trading values and volume (Dimic et. al, 2015). Consequently, ignoring the important role of the level of political risk and preparing an international portfolio decreases the positive effect of the portfolio's international diversification. (Smimou, 2014)

The impact of political events on financial market performance has been a significant debatable over the last years. The relationship between political events and stock markets has been widely examined in the empirical literature, especially after the recent financial crisis.(Diamonte et. al, 1996) and (Lehkonen and Heimonen, 2015), indicate that any reduction in the political risk can lead to higher portfolio and stock returns. (Huang et. al, 2015) finds out a positive relationship between international political risks and governmental bond yields. (Smales, 2014) uses Australian federal elections as a proxy for

political events. He shows evidence that this political events proxy has a substantial impact on the financial markets. (Li and Born, 2006) also provide evidence of a strong relationship between the elections and the financial markets. (Addoum and Kumar, 2016) examine the effects of the political climate changes on financial market outcomes. The number of elections, the transition of power between the political parties and the political alignment index (PAI) are used as political events variables. They show that the investor's demand is influenced by the shifts in the political climate. Moreover, these changes affect the returns of firms and industries that are politically sensitive. Some other studies use as political instability variables or as a part of those, terrorism actions and events. These studies shows evidence of a strong negative relationship between political events and financial markets. (Chesney et. al, 2011)

Additionally, the impact of political events on stock market's dynamics has been investigated in the developing countries. However, the results are often too controversial. For example, Kongprajya assessed the impact of political risks on Thailand stock market. The result of testing gave evidence of a significant increase of daily SET return due to the positive political events (and a corresponding decrease due to negative events). (Kongprajya, 2010)

Similar results were obtained from the Pakistan market. It was demonstrated that positive political events increase the return of KSE100 index and reduce its volatility. Negative events influence just inversely, reduce return and increase volatility. Furthermore, the events effect is asymmetric: negative political events have a greater impact on market dynamics. (Suleman, 2012)

According to previous studies, political events have a significant impact on stock market dynamics in the developed and developing countries. Despite the fact that the results are

obtained from the analysis of different countries, some of the outcomes are very similar. For instance, it was confirmed that positive and negative events have a corresponding positive and negative impact on stocks' return dynamics. Yet, this fact is rather prospective. At the same time, depending on the country of examination, positive and negative political events may affect the market differently. In some countries, this news increases volatility, while it influences asymmetrically in others. This means that negative events have a stronger effect on volatility.

To bridge the gap in scientific knowledge, the researcher's goal is to study the peculiarities of political events' influence on price dynamics on Palestine exchange between (1997-2016). More precisely, the research will examine and analyze their impact on return and volatility of market indices. This research has a marked theoretical and practical significance that allows researchers and market experts to obtain the most accurate and perfect idea of the impact design of political events on the Palestine exchange (PEX).

1.2 RESEARCH PROBLEM

Market's efficiency is defined in terms of how fast the market is able to assimilate new information in the prices of securities. The securities markets have been known to be affected by political events in response to the perceived impact on domestic and foreign policy. The general effect of political events on stock exchange has been the increased volatility of stock prices around political events. This is mostly attributed to the uncertainty that surrounds such events with most investors find it hard to make investment decisions during these political events. The political events are in the form of elections, referendum votes, the Palestinian uprising, occupation procedures, political position, and wars.

Although there has been enormous study on the effect of political events on stock markets in developed countries, few studies have been conducted on developing markets.

Since PEX(Palestine Exchange) is considered as a newly emerging financial market, no research was conducted on the reaction of PEX to political events. Therefore, this study builds on the previous works through analyzing the impact of political events on stock returns at PEX between (1997-2016).

1.3 RESEARCH SIGNIFICANCE

The study will be of a benefit to scholars, potential investors, listed companies, and the government. As for the scholars, the study will add new knowledge into the scholarly world with an opportunity to build new studies around it. To the stock market players, this study will shed more light on the patterns of stock returns at PEX around political events date. Existing and potential investors will therefore make an informed decision on their trading positions in future-related events, while investors would shape expectations on stock returns trades. Listed companies will be informed while performing political events analysis prior to making an investment and other corporate decisions, as well as assessing how related political events may affect the value of their companies.

1.4 RESEARCH OBJECTIVES

The study attempts to achieve the following objectives:

1. To examine the impact of political events on stock returns in PEX(AL-QUDS INDEX).
2. To examine whether there are abnormal returns around events date.
3. Establish the behavior of stock returns for companies listed at the PEX.

1.5 RESEARCH HYPOTHESES

Based on the previous discussion, the researcher forms the following hypotheses.

H1: Mean Index returns before and after the political events are different. ($\mu_1 \neq \mu_2$).

H2: Mean Index returns before and after the favorable political events are different. ($\mu_1 \neq \mu_2$).

H3: Mean Index returns before and after the unfavorable political events are different ($\mu_1 \neq \mu_2$).

1.6 RESEARCH METHODOLOGY

Two different variables are involved in this, political events as an independent variable and stock returns as dependent variables. Political events are measured by dummy variables. Days before the events, these events took the value of (0) while after the events; they took the value of (1). This study used stock returns as a dependent variable since it attempts to check whether stock returns are affected by political events or not. (AL-QUDS INDEX) stock returns before and after the occurrences of political events were collected and investigated.

This study used logarithmic return to solve the problem of unit root making data stationary:

$$R_t = \ln(P_t/P_{t-1}) \text{ where}$$

R_t = is a logarithmic return

P_t = current day return

P_{t-1} = previous day return

Political events that happened from (1997-2016) are also considered in this study. The motive behind selecting this time frame is Palestine volatile political structure during these years.

1.7 DATA COLLECTION AND ANALYSIS

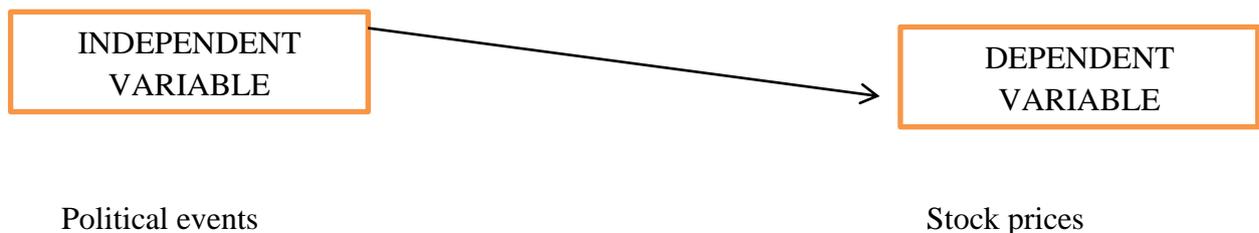
To test the hypotheses, secondary data has been used. It required two kinds of data, one about stock prices and the other is about political events.

Data about PEX stock returns has been obtained from PEX. It consists of total (7481) observations between (1997-2016).

Data about political events has been obtained from Palestine's leading newspapers and some international sources.

1.8 RESEARCH MODEL

Figure (1): Research Model



1.9 RESEARCH LIMITATION

This research has faced several challenges as follows:

- A number of days remained closed and therefore returned no prices. An assumption was made that the previous day prices for the particular stock still prevailed.
- The study assumed that no other factors or events affected the stock returns during the event window.
- The measurement of political risk depends to a large extent of the subjective judgment which is in a quantitative sense a limitation.

1.10 DEFINITION OF KEY TERMINOLOGIES

Palestine Securities Exchange: The PEX was established in 1995 by PADICO as a gate for financial market exchange. Its capital is more than \$3billion as of 2012 and is continuously growing. It offers both Palestinian and international investors with the chance to invest in both locally held and internationally funded corporate through their issued stocks in the market¹. The following chapter explains more about this market.

Political Events: A type of risk that faces investors, corporations, and governments whose political decisions, events, or conditions will significantly affect the profitability of a business actor or the expected value of a given economic action. (Ian Bremmer, 2007. P. 101)

Favorable political Events: A type of risk that faces investors, corporations, and governments whose political decisions, events, or conditions will positively affect the

¹Official website of the PEX www.pex.ps

profitability of a business actor or the expected value of a given economic action. (Ian Bremmer, 2007. P. 101)

Unfavorable political Events: A type of risk that faces investors, corporations, and governments whose political decisions, events, or conditions will negatively affect the profitability of a business actor or the expected value of a given economic action. (Ian Bremmer, 2007. P. 101)

Market Value: The prevailing market price of a security. (Gitman and Joehnk, 2008. P.268)

Investment Decision: The decision investors have to make based on the set of different variables; mainly risk and return. (Ross et. al, 2009. p. 259)

Economic Fluctuation: The changes in economy resulting from two sets of factors: on the micro level and on the macro level. (Ross et. al, 2009. p. 899)

Risk: the chance that the actual return from an investment may differ from what is expected. (Gitman and Joehnk, 2008. P.195)

Efficient Market: A market that reflects all available information quickly and accurately. (Gitman and Joehnk, 2008. P.406)

CHAPTER TWO

LITERATUREREVIEWS

2.1 INTRODUCTION

Economic conditions in the West Bank and Gaza Strip, where economic activity was governed by the Paris Economic Protocol of April 1994 between Israel and the Palestinian Authority, deteriorated in the early 1990s. Real per capita GDP for the West Bank and Gaza Strip (WBGs) declined 36.1% between 1992 and 1996 owing to the combined effect of falling aggregate incomes and robust population growth. The downturn in economic activity was due to extensive corruption in the newly governing Palestinian Authority and to Israeli closure policies in response to terrorist attacks in Israel, which disrupted previously established labor and commodity market relationships. The most serious effect was the emergence of chronic unemployment. Average unemployment rates in the 1980s were generally under 5%; while by the mid-1990s it had risen to over 20%. After 1997, Israel's use of comprehensive closures decreased and new policies were implemented. In October 1999, Israel permitted the opening of a safe passage between the West Bank and the Gaza Strip in accordance with the 1995 Interim Agreement. These changes in the conduct of economic activity fueled a moderate economic recovery in 1998–99

In an attempt to understand the movements of the stock prices, one way that could be used is to refer back to historical quotes to understand why such changes occurred, then use them to predict any future changes.

The behavior and fluctuation of stock prices during the period of dramatic events have undergone an extensive empirical investigation by researchers for a long time. Unexpected events can produce so much stress and uncertainty that make market participants unable to accurately and rationally assess the value of a stock, which in turn causes volatility in the market.(Kongprajya, 2010)

In this direction, a bulky number of papers have examined the behavior of stock price when there was an uncertainty in financial markets after the occurrence of political events. A review of some of these papers is presented below.

2.2 DISCUSSION OF STOCK MARKETS EFFICIENCY

It is vital to realize that even in most sophisticated stock markets, efficiency is not fully guaranteed due to many factors and information that enter and affect markets at the same time. From economists' point of view, markets are efficient if prices fully reflect the information. (Fama, 1970)

2.2.1 What Is An Efficient Market

Early in 1900's, market analysts noticed that stock prices tended to follow a 'fair game' movement, whether going up or down, and that no particular investor seemed to have an advantage over others, and no one seemed to follow a certain investing or predicting strategy. (Gitman and Joehnk, 2008, p.405)

This point of view was countered by the supporters of the 'Efficient Market Hypothesis, EMH' who explained that stock prices tend to move as a result of different factors which are known to a large number of investors in the market. In other words, based on such information, the market prices of stocks tend to adjust themselves quickly and accurately. (Md. Saheb and Imran, 2013, p.6)

Thus, later on, it became known that an efficient market is one whose all information is available is reflected in the stock prices (Ross et. al, 2009, p.372). Therefore, market price reflects all available information about any particular stock in the market. This information might be historical, such as the previous record of dividend payout, current such as

information about ongoing activities or projects, and even future-related information, such as predictions of future earnings per stock EPS. (Gitman and Joehnk, 2008, p.406)

2.2.2 Types Of Market Efficiency

To be able to fully appreciate the approach to EMH, the following tenets about market behavior are cited. (Gitman and Joehnk, 2008, p.405):

1. No individual, whether an investor, analyst, or even a company can affect the stock prices alone, as information is stocked and knowledge is distributed consistently.
2. Information distributed to all investors in the market is provided almost at the same time and with almost no charge.
3. In general, information on different random events ‘strikes, accidents,, etc.’ tend to emerge randomly to the market.
4. Investors react quickly and accurately to all available information causing stock prices to adjust quickly.

On the other hand, in order to be able to realistically reflect the different types and impacts of information on stock prices, advocates of the EMH developed a three-level efficiency scale as follows:(adapted from (Ross, et. al, 2009, p.373-375):

- a. WEAK FORM – EMH: This form holds the fact that previous record of market prices for stocks is not relevant and that changes in prices today do not relate to yesterday’s prices. The advocates of this form confirm that if past market prices can help predict future prices, then an investing strategy could be developed solely by using historical prices. It is strongly agreeable however, that stock prices tend to have runs of going up or down consistently, so if investors could manage to spot

such price runs, large amounts of profit could be made, in addition to avoiding a certain level of loss (when prices are running down).

- b. **SEMI-STRONG FORM – EMH:** The semi-strong form stresses that no abnormal profits are made using publicly available data. In other words, historical market prices, company earnings, inflation, etc. should be publically available; however, this does not mean that investors are able to predict price movements accurately and timely. The main stream of research about this area focuses more on the speed with which such publically available information changes stock prices. Many studies that were conducted in this area tried to investigate the different anomalies, stock splits, and many other major events that could cause stock prices to adjust. The overall results indicated by such studies stressed the fact that market prices tend to change accordingly within minutes if not seconds and that even hearing about an event in TV or radio usually allows too little time to make an abnormal return.
- c. **STRONG FORM – EMH:** The final form of efficiency stresses that regardless of the type or speed by which information arrives to the market, there will be no chance to make abnormal returns. Sadly; this form of efficiency has not captured a lot of interest in the world. For example, insider trading is effective in different markets all over the world, allowing corporate, executives, and others to gain huge amounts of abnormal return, which is inconsistent with the strong form of efficiency.

Understanding the different types of efficiency helps gaining an understanding of what factors might cause such lack of efficiency in different emerging markets, such as Palestine.

2.2.3 Importance Of Market Efficiency

It is important to realize that market efficiency leads to a better investment environment (Al-Khazali and Zoubi, 2010, p.9). The fact that investors are able to predict, and accordingly make accurate investment decisions reduces both the risks associated with such decisions, and the chances of generating abnormal returns by other investors. Supporters of the EMH in its different levels strongly believe that making stock transactions within such markets helps to improve the economy in general and cause some sort of stability within the market itself, thus pooling more funds for investment, both locally and internationally. (Gitman and Joehnk, 2008, p.258)

A final note to make at this stage; although financial markets are not completely efficient, they still manage to lead global financial systems, and link them together. The stronger the efficiency among these markets, the better ability they have to continue leading their respective financial system, and more likely they are able to survive global financial crisis.

2.3 THE RELATIONSHIP BETWEEN POLITICAL RISK AND STOCK PRICES

Political changes that arise from the collapse of communism, the execution of market-oriented economic and financial reforms have resulted in a huge amount of external capital flowing into the emerging markets of Eastern Europe, Latin America, Asia, and Africa. (Ramcharran, 2003), These events have alarmed international investors about the reality that globalization of world trade and open capital markets is risky and can result in financial crisis that spread rapidly and can prove to be a destabilizing factor for the international financial sector. (Hayes, 1998), Political risk emanates from the uncertainty

that relates to exercise of power by governments and its consequences. Non-governmental actors in a country can also trigger political risk.

There are other factors that can increase political risk in a country. They include baseless political decisions, other events (political conflicts, military interference in politics etc.), and conditions that disturb the prevalent business conditions and ultimately result in losses to investors, exporters and creditors. It has been witnessed that financial markets respond readily to news flows that relate to a country's politics. (Suleman, 2017)

The relationship between political risk and stock market is one of the interesting issues that have been explored by a numerous academic literature both in the developed and emerging countries, especially in this modern era that is characterized by rapid development in a communication system that enables individuals to access all political information and quickly respond to that news. One of the recent researches in this area was introduced by Chuang and Wang. Basically, they aimed to examine the effects of political change in developed stock markets by adopting a panel data analysis as their methodology since it is assumed that country-specific effect exists. The data utilized is the daily stock return data for individual country indices including Nikkei 225, SBF-250, FTSE 30, and Dow Jones 30. Empirical results show that a political risk dummy coefficient is significantly negative at 5% significance level on all stock markets, which is considered an indicator of negative relationship between the American, Japanese, British, and French stock returns and political changes. The 1987 crash dummy shows that DJIA, Nikkei 25, SBF- 250, and FTSE 30 are significantly negative at the 5% significance level. Moreover, analytical findings suggested that the effect of political risk on stock returns after the 1987 crash significantly exceeded compared with those prior to the crash. Prior to the 1987 crash, the confusion in economic and finance policies, the clash and conflict of Congress or Parliament policies, and slow policy performance caused an uncertainty to the market,

therefore, these factors negatively influence and create uncertainties in the national economy. However, after the 1987 crash, there were an increasing numbers of specialists and economists involved in governmental policy planning; consequently, political change in this period has positively affected individual country's economic performance (Chuang and Wang, 2009).

Also, many scholars examined the relation between political events risk and stock prices not only in the context of developed countries but also in the emerging ones. For example, Wang and Lin investigated the response of stock market to political uncertainty during congressional sessions in Taiwan. The objective of the paper was to find answers for three questions including whether or not congressional sessions exert an influence on stock returns and volatility, whether or not democratization (as reflected by the democratically presidential election in Taiwan) influences stock returns and volatility, and whether or not the interaction effect between congressional and democratization influences stock returns and volatility. Here, these effects are captured by adding congressional sessions and democratization dummy variables into the model. The results suggested that congressional sessions cause a significant negative effect on stock returns. In contrast, this uncertainty is not a crucial variable to the stock market volatility. When considering the coefficient of democratization dummy variable, it was found that the effect of democratization on stock returns is similar to that of the congressional sessions. That is, the democratic election resulted in a significantly negative stock return. Likewise, the stock market volatility was increased following democratization in Taiwan to significantly exceed volatility previous to such changes, the findings from the paper demonstrated an interesting results that during the congressional sessions, Taiwan's stock returns after democratization significantly exceed those prior to democratization, but stock volatility do not display significant. This

result is inconsistent with the expectation that the uncertainty generated from congressional effects will cause a negative shock on financial markets(Wang and Lin, 2009).

2.4 STOCK MARKET RETURNS

Stock return can be defined as the change in stock prices relative to the initial prices at which the investor has bought the stocks. In an efficient market, changes in prices are expected to be random and unpredictable since stock prices are expected to reflect all available news. The type of news incident to changes in stock prices can loosely be referred to as an event. We could derive different types of events in a stock market. Stock specific events only affect the particular stocks for which they relate. Such news as the announcement of dividend change, stock splits, mergers and rights issues are stock specific since any change of perception by investors is only on the particular stocks. The availability of such news is always public owing to the requirement by stock market regulating bodies to have such information relayed to the public. Empirical evidence exists showing that stock prices react to such news. In their study on the share price adjustments and information content of annual reports, Ball and (Brown, 1968) found that earnings announcements and dividend payout changes have significant effects on stock prices. Another set of news would be news specific to an industry. The availability of such news will result in changes in the prices of all industry player stocks albeit the levels of reaction by the specific players that may be different. Such events as the availability of cheaper inputs for a manufacturing process, introduction of new performance tax, or entry of a large player in an industry may result in changes in the stock prices of industry players. Lastly, another set of events that can have an effect on the market as a whole can be divided into economic events and non-economic news. The economic events have a financial backing such as interest rate volatility and inflation. Such events mostly affect the

economic fundamentals of the stock prices; therefore, leading to changes in the prices. (Nguthi,2013)

While most events are economic in nature and mostly industry specific, political events such as wars, elections, death of presidents or prime ministers, referendum votes, change of governments through coups among others are non-economic in nature. The economic events happen randomly and are hard for non-insiders to predict. However, election dates are determined way before hand, following a pattern after a number of years. This notwithstanding, electioneering periods are associated with a lot of uncertainties for investors. (Miya, 2007)

2.5 IMPACT OF POLITICAL EVENTS ON STOCK RETURNS

(Durnev, 2010) and (Julio &Yook, 2012) investigated the uncertainty generated from future political events, such as elections, and their relationship to investment and the stock market . Researchers used a different measure for the proxy of political risk and reported a significant increase in volatility due to an increase in political risk. For example, (Boutchkova et. al, 2012); noted a decrease in investment during election years, and found an evidence to support the hypothesis that political uncertainty causes firms to reduce investment until electoral outcomes become known. (Li & Born, 2006) supports their hypothesis that uncertainty about US presidential elections is reflected in pre-election common stocks. They further indicate that if there is no dominant candidate, stock market volatility and average returns rise. (Suleman, 2017)

(Pástor&Veronesi, 2013) concluded that governmental policies have heterogeneous effects. They specified that stock prices are driven by three types of shocks: capital shocks, impact shocks, and political shocks. Political shocks are the result of learning about political costs,

the uncertainty of which they refer to as political uncertainty of prospective policies. Empirical results for the US market demonstrate that stocks are more volatile and more correlated during high political uncertainty and when economic conditions are not good. Further, high risk premiums are reported during bad economic conditions and high political uncertainty. This theoretical model is further extended to option markets by (Kelly et. al, 2016). They examined the impact of political uncertainty (political events) on the equity index option market for 20 markets. Their empirical results confirm that equity options spanning political events are more expensive as they work as a hedge against the political risk.

2.6 DETERMINANTS OF STOCK RETURNS

There are three recognized determinants of stock market returns in the literature. The first determinant is inflation, the second is political news, and the last is the foreign exchange rate. Empirically, stock returns are negatively related to actual inflation, and to expected and unexpected political events. (Samih, 2014)

(Fama and Schwert, 1990) showed that only 50% of the market stock prices variations can be explained ex-post by real economic activity. Researchers have therefore exerted a lot of time trying to examine factors other than the fundamentals of demand and supply that influence the stock price movements. In general, release of company-related events plays a very vital role in price shifts. Where such events are negative, the prospects of the stock are negatively affected and lead to more people disposing off the stock. Positive events on the other hand lead to increased interest in the stock which culminates to better pricing. Significant movement in share prices has been associated with announcement of trading figures. An increase in Earnings per share (EPS) gives a general feeling of a healthy company; therefore, influencing the buying tendencies in the market. The Price Earnings

Ratio (P/E) gives a comparison of the share price to the earnings. Where the stock price is too low compared to earnings, then the signal is that the stock is undervalued and has a potential of rising. On the other hand, when the ratio is high, the indication is that the stock is overvalued and there's a likelihood of fall in prices. (nguthi, 2013)

To some extent, the stock performance is explained by the performance of the respective board. The appointment of a new board, its composition, resignation among others has been found to connote useful pricing information. In their study, (Gurgul and majdosz, 2007) found as evidence that support the significant effect of board resignations in stock prices.

Announcement of dividends do contain relevant pricing information. The effect of this kind of news is more significant after the announcement date and not in the pre-announcement or announcement date. According to (Mehindiratta and Gupta, 2010), investors shift their position at the time of dividend announcement indicating information content in the post announcement period. Empirical evidence exists shows that dividend increase leads to more positive abnormal returns which supports the EMH. (Bialkowski et. al, 2006)

2.7 BEHAVIOR OF STOCK PRICES IN THE TIME OF MARKET CRASH

A more specific topic which has been extensively explored by researchers in many areas is the behavior of stock prices in response to market crash. Schwert thoroughly examined the behavior of stock return and volatility around the 1987 market crash by using a sample of US stock return data from 1885 to 1988. Initially, he investigated the daily and monthly percentage change in stock return during the sample period and remarked that October 19, 1987, was the largest one-day percentage change in stock prices (-20.4 percent). Also, he

found several patterns of stock market behavior. First, the reversals emerged in many sub-periods; large drops in stock prices are frequently followed by large increases. For example, after the next two largest drops in stock prices on October 28 and 29, the market rebounded on October 30 to 12.5 percent one-day gain which is the second largest gain in the sample. He noted that this is the characteristics of an increase in stock market volatility during and after the crash. The same conclusion was also drawn when using the monthly stock return data. Moreover, he also conducted a more structured analysis of the time-series properties of stock market volatility by employing an autoregressive and seasonal model to predict stock volatility. The model estimated short-term movements in conditional expected returns by regressed stock returns on 22 lagged returns and day-of-the-week dummy variable which captures differences in mean return in each-trading day. A similar model was also used to estimate the conditional standard deviation of returns. The results of the test from a stock return model suggested that there is a weak tendency for movements in aggregate stock returns to persist and most of the movements in daily stock returns cannot be explained by the model's independent variables. For the estimation of stock market volatility, the results showed that volatility is expected to be lower than average on Saturday since trading lasted only half day. Moreover, there is a strong tendency that the aggregate stock volatility will persist and movements in daily stock volatility are much more predictable than those in stock returns. A leverage effect in return-volatility relation was also examined by including lagged values of the volatility measure in the stock return estimation model. The model revealed that there is weak evidence that an increase in volatility increases the expected future return to stocks; rather, stock volatility is negatively related to stock return. More specifically, he found an asymmetric effect of a negative and positive return shock on stock volatility. That is, a negative shock has about 2.5 times as large an effect on volatility as a positive return

shock. Finally, the paper compared and contrasted the behavior of stock volatility between the October 1987 crash and other market crashes by adding two sub- period dummy variables including October and November 1987. He also pointed out that there is an unusualness of the 1987 crash and its aftermath. First, it was found that during the October 1987, the stock returns are higher than predicted while they are lower than predicted in November 1987. Second, when compared with the historical average, the stock market returned to relatively normal levels of volatility more quickly at the 1987 crash than previous crashes. These conclusions were confirmed even though the sample data are drawn from the options and futures markets. (Schwert, 1990)

Based on the fact that investors are currently facing integrated financial markets where domestic and foreign securities are close substitute, Fang claimed that, according to the portfolio balance model (Branson and Henderson, 1985), currency depreciation should have negative effects on stock prices and stock returns. He then used a daily stock data from Thailand and the four other Asian Tigers; Hong Kong, Singapore, South Korea, and Taiwan to investigate this hypothesis over the period of Asian crisis 1997-1999 which caused a depreciation in many countries' currency. The domestic currency depreciation due to the financial crisis could be a cause of stock market volatility. The results showed that there is high volatility persistence in all markets where South Korea presented the highest persistence followed by Hong Kong, Singapore, Taiwan, and Thailand. Moreover, two important conclusions from the research are drawn. First, a significant negative relation between the stock return and the depreciation rate existed in the stock market of Singapore, South Korea, Taiwan, and Thailand. For Hong Kong, though the stock market did not exhibit this relation due to no change in an exchange rate, the concern about the depreciation hit the stock market harshly. The same situation occurred as well in Singapore, Taiwan, and Thailand which suggested that currency depreciation rooted from

the Asian crisis is a source of market volatility. However, the depreciation has an adverse effect on South Korea's stock returns but not on market volatility. Second, he found an evidence that currency depreciation which caused by the crisis is a determinant of stock market volatility. At the end of his paper, he provided the implication from the research that domestic investors or international fund managers who intend to invest in East Asian newly emerging stock markets may need to carefully evaluate the stability of the foreign exchange markets to avoid biased judgment. (Fang, 2002)

2.8 PALESTINE SECURITIES EXCHANGE PEX

In this part, the researcher concentrates on the PEX, which is the environment currently under investigation. The researcher starts by giving an overview, and then discusses its mission, vision, objectives. We also focus on the reasons for investing in PEX, and some of the trading terminologies, and discuss Al-Quds index. Finally; we end this part by discussing laws related to listing companies within the PEX.

2.8.1 Overview

Palestine Exchange (PEX) was established in 1995 to promote investment in Palestine. The PEX was fully automated upon establishment- a first amongst the Arab Stock Exchanges. The PEX became a public stockholding company in February 2010 in response to principles of transparency and good governance. The PEX operates under the supervision of the Palestinian Capital Market Authority.

There are 48 listed companies on PEX with market capitalization of about \$3 billion across five main economic sectors; banking and financial services, insurance, investments,

industry, and services. Most of the listed companies are profitable and trade in Jordanian Dinar, while others trade in US Dollars. Only stocks are currently traded on PEX, but there is a potential and readiness to trade other securities in the future. In 2009, the PEX was ranked thirty third amongst the worldwide security markets, and regionally comes in second in terms of investor protection.

2.8.2 PEX Vision

PEX seeks to be a model for Arab and regional financial markets, through providing innovative services, proposing ideal investment opportunities in securities, attracting investments, the use of state of the art technology, compliance to the rules of corporate governance, and establishing constructive relations with Arab, regional and global markets.

2.8.3 PEX Mission

PEX aims to provide a fair, transparent and efficient market for trading securities that serve investors, protect their interests, contribute to creating an enabling environment that attracts local and foreign investments, and interact with local and Arab relevant institutions in a manner that serves the national economy and enhances the culture of investment in financial markets.

2.8.4 PEX Objectives

The main objective of PEX is to provide a safe and enabling trading environment characterized by efficiency, fairness, and transparency. It also aims to increase the investment awareness of the local community and to enhance PEX relations with local, Arab and international economic institutions and forums. Other objectives include:

- ❖ Developing domestic investments and attract Palestinian & foreign capital.

- ❖ Increasing the depth of the exchange by continuously listing new companies and providing new and diverse financial tools and services.
- ❖ Creating a proficient working environment within the PEX by investing in human capital, and maintaining an up-to-date technology of stock markets.

2.8.5 Reasons to invest PEX

- 1) Small yet robust.
- 2) Great spring back potential.
- 3) Tried & tested.
- 4) Undervalued stocks.

2.8.6 Trading PEX

The first trading session at PEX was held on 18/02/1997. Since it was launched, PEX depended on electronic trading and clearing, depository, and settlement systems. In this sense, PEX is considered the as pioneer securities market in the region that adopts the automation of all its processes related to trading, clearing, depository and settlement. At present, PEX adopts the Horizon system supplied by OMX as a trading system. In addition, it adopts the SMARTS system as a surveillance system.

2.8.7 Trading Days and Times

- Trading is carried out daily from Sunday till Thursday every week.
- Trading is not carried out on: weekends (Friday and Saturday), official holidays, and the last working day at the end of the fiscal year.
- Scheduled trading session is to be cancelled if the ratio of member firms technically unable to connect and to trade is (35%) or more of the total number of member firms.
- Trading session starts at 09:45 and finishes at 13:30.

2.8.8 Trading Rules

- Price limit up and down: (7.5%) for the first market and (5%) for the second market.
- Price limit up and down: (7.5%) for companies listed in the first market and (5%) for companies listed in the second market.

2.8.9 Trading Unit

At present, the minimum limit of the number of stocks allowed for trading (buy – sell) at PEX is one (1) stock for all traded stocks.

2.8.10 Al Quds Index

The Palestine Exchange modifies the Al-Quds Index Sample for the year 2012. PEX has adjusted list of companies to be included in its Al-QUDS INDEX for the year 2012. PEX raised the number of companies included from 12 to 15 to reflect the increase in the number of listed companies which grew to 48 companies as at the end of December 2016.

2.8.11 Listing Laws In PEX(No. 12, 2004)

2.8.11.1 Summary

This law is concerned with regulatory issues within the capital market sector. It specifies the roles of PEX and the Palestine Capital Market Authority (CMA)

2.8.11.2 PEX

The roles of PEX include the following:

1. Regulate, oversee, and monitor the activities of members, issuers, and listed companies regarding their securities.

2. Regulate dealings in securities to safeguard owners of securities, investors and the public from fraud, deception, and unjust practices in accordance with the regulations issued by the CMA.

3. Apply and implement rules and procedures designed to monitor the activities of members. These include:

a. The right of the Exchange to examine the books and registries of members.

b. Inquiring into the financial status of member companies and ensuring that financial audits comply with international standards.

c. Sending the CMA periodical reports on members' activities.

4. Conducting investigations into member companies and listed companies and the imposition of fines when rules are contravened.

5. Setting and imposing fees on member and listed companies for using its supplies and services, including: registration, membership, trading and listing fees after having sought the CMA's approval.

6. With justified reason, asking CMA to suspend dealing in traded securities or the operations of any of its members for a suitable period.

In carrying out its duties, PEX is required to act ethically and professionally in accordance with directives issued by the CMA. Having obtained the CMA's approval for its procedures, it is also charged with establishing rules of practice, surveillance, monitoring and execution that ensure the Exchange itself operates effectively.

2.8.12 Some PEX Indicators

- ✓ Number of companies listed in pex.
- ✓ Comparison market value (million us dollars).
- ✓ Comparison the value of traded stocks (million us dollars).
- ✓ Comparison of the number of stocks traded (million).
- ✓ Comparison the average daily trading volume (million us dollars).
- ✓ Foreign investment.
- ✓ Return on investment (percentage %) (roi).

2.9 PREVIOUS STUDIES

(Hira, 2017) examined the effects of political uncertainty on corporate investing behaviors by analyzing the change in stock prices resulting from the uncertainty in the political system. The study concentrates on the relationship between stock prices and political instability. Political instability was measured by different factors, such as strikes, assassinations, riots, demonstrations, government longevity, government change, and regime type. Results of the study indicated the existence of a negative relationship of stock prices with political instability.

(Nikolayevich et. al, 2017) has set the aim to investigate the Russian market by using GARCH models. By using such approach, they were allowed to precisely determine the influence of political events on return and volatility of market assets. Research has demonstrated that political events have a significant impact on price dynamics of financial assets of Russian stock market. Moreover, it was confirmed that positive political events exert significant impact on return increase of Russian stock market, and negative events – on return decrease. The increase of MICEX index quotes in a day with positive events is consistently higher than price increase a day before. Correspondingly, in case of negative events, market returns decrease significantly in a day of their appearance.

(Asteriou&Sarantidis, 2016) examines the relationship between political events and stock market returns by using quarterly time series data from 1993 to 2013. In this paper, stock market returns are defined as returns of the general stock market index and banking index for 18 OECD countries. Five different political events indicators were constructed to measure political uncertainty. The empirical part utilizes the EFA, PCA and GARCH-M methodologies. The findings indicate a direct and an indirect impact between the indicators of political events, returns of the Banking Index, and the Overall Stock Market Index.

In their paper, (Najaf et. al, 2015), they aimed to explore the relationship between political events in Pakistan on the stock market development. The paper presents data concerning the reaction of financial markets to the political events in Pakistan between (2011-2014). T-statistic is used to measure the impact of political events on stock exchange market. In order to determine the Average return (AR), moving average method was used .The results of the study shown no existence of significant relationship between stock market returns and Political events.

(Lam & Zhang, 2014) investigated the impact of policy uncertainty on stock returns in 49 developed and emerging markets during the period 1995-2006 by constructing two global policy uncertainty measures. Government stability and bureaucracy quality data were obtained from the ICRG to construct these two measures. They used the Zero Investment Strategy for the country level portfolios from their policy uncertainty measures. They sorted the countries monthly according to low minus high government stability and bureaucracy quality respectively. By doing this, they have two types of stock returns according to policy uncertainty. Their results confirm that policy uncertainty measures significantly affect the returns. They foundout one standard deviation increase in the bureaucracy quality increase the returns of 27% per year whereas for the government stability it is 7.8%.

(Mahmood et. al, 2014) have examined the extent to which political events impact the KSE-100 index returns. Fifty major political events were selected from the period of 1998 to 2013. To calculate the abnormal returns, Event Study Methodology was applied while KSE-100 index returns data for 30 days before and 60 days after the event were also collected. Results of each window verify that negative abnormal returns are observed some days before and some days after the event. The conclusion part of this study covers two aspects, the first measures the KSE-100 index performance, and the second evaluates that

how KSE-100 index returns fluctuates in response to a political event and for how many days abnormal returns are achieved in short time frame, and long time frame as well. By applying the Event Study Technique, it is concluded that KSE-100 index returns becomes volatile when political event occur. This study shows that political events volatile the KSE-100 index returns for short time period (Maximum for 10-15 days) because political events in Pakistan are less related to the market.

(Alam, 2013) has taken eleven events to examine the relationship between the stock market terrorism Impact Factor (TIF) in the Pakistani stock market. Results have shown that in the long-term, terrorism would have a negative impact on stock market but in short-term, there would be no such relationship between stock market and terrorism activities.

(Gul et. al, 2013) examined stock market reaction to political events in Pakistan. The study proved that political instability has a considerable effect on the stock prices. This study used Event Study Methodology to test this relationship. His study found out that, there were several hardships and difficulties for the equity market investors during the 2008 financial crises . Further, researchers made an opinion that during 2007-2010, the equity market faced difficulties because of the events that have reduced foreign and domestic investment in the market.

(Lei, 2013) examined whether a special political event will have an impact on stock market returns. Shanghai Composite Index, S&P 500, and CAC 40 were used as a representation of the Chinese, U.S., and French stock markets. The researcher made a hypothesis of the correlation between political events influence and equity market returns. Also, the researcher examined whether or not stock markets exhibit abnormal return patterns before and after the date when these events have occurred. The finding of the research state that if a country is highly influenced by politics and has a political information asymmetry, the

stock market will exhibit abnormal (usually consistent negative) return patterns in the months prior to political elections. If a country has less political information asymmetry, there will be fewer abnormal return patterns in the stock market. This thesis also notices that generally, in the three months prior to a war announcement or the outburst of a sudden event, U.S. stock market usually exhibits negative monthly returns. While in the three months after these events, monthly index returns are generally positive.

(Graham and Ramiah, 2012) used an Adaptive Expectations Hypothesis and Event Study Methodology to estimate the impact of five terrorist attacks (9/11, Bali, Madrid, London, and Mumbai) on all sectors listed in Japanese stock markets. Parametric and non-parametric tests were used to investigate whether the systematic risk and returns were affected by these events. In general, the increase in systematic risk of some Japanese industries was documented whilst strong negative impact on returns were recorded for most of the industries on the first day of trading following the 9/11 attacks.

(Qaiser et. al, 2012) used five events to examine Karachi Stock Exchange. The data of stock exchange was collected during 2007-2010. To examine the relationship between the variables, researchers used Multiple Regression Model and Ordinary Least Square Method. The results showed a significant negative impact of bad political events on the KSE 100 index and Exchange rate.

(Arzu, 2011) examined the relationship between aggregate stock market trading volume and daily stock returns during 20/02/2009 - 11/03/2011 when the events happened in Pakistan. This paper evaluates the instability in the stock market due to the political events, the dependency of fluctuations in stock returns, and trading volume. The hypothesis of this study state, "The political events have a great impact on trading volume and stock return". Six political events, (Attack on Sri Lankan cricket team, Restoration of C.J, Ashura attack,

Pakistan temporarily suspends NATO supply, assassination of Governor Salman Taseer, Assassination of Minorities Minister ShahbazBhatti) have been considered. The data concerning pre and post events has been collected to determine the impact of these events on KSE. The results showed that stock returns moved too much due to change in the trading volume. Likewise, the same results were found as changes occur in the value of correlation between the trading volume and stock return. The results also show that due the nature of event, the relation between the trading volume and the stock return fluctuate. From his study, it can be concluded that the event affect the value of Pearson correlation and due to even the value decreases from their pre event value.

(Chesney et. al, 2011) investigated the impact of 77 terrorist events financial market indices in 25 countries. Twelve years financial market's daily price indices starting from 4 Jan, 1994 till 16 Sep, 2005 were used while the behavior of stocks, bonds and the commodity market was analyzed by using an event-study approach. They found that terrorist attacks significantly affect European, American, Swiss, and the global markets.

(Hussain et. al, 2010) estimated the impact of terrorist activities on the financial markets in Pakistan over the period of two years i.e. 2006 to 2008. The study found out the extent and direction of relationship between the terrorist activities and three financial markets of Pakistan, namely: the Karachi Stock Exchange, the FOREX market, and the Interbank market. After the collection of the primary data for the terrorist activities on daily basis, and the secondary data on the indicators of the three markets by using the OLS model, this study attempts to quantify the impacts of various types of terrorists' activities on financial markets. They have found that terrorist activities adversely affect financial markets.

(Khalid &Rajaguru, 2010) investigated the impact of political events (positive and negative) on financial markets. Using data from Pakistan for the period from January 1999

to September 2006, they link 'a' political event to the financial market volatility. They used high frequency data from three indicators (currency, stock and money market) of the financial market for empirical estimation. They also have employed a Markov Switching process to identify the low and high volatility regimes in Pakistan's financial market, and then linked these regimes to certain political events. They used data on daily observations of exchange rates, stock prices, and interest rates to perform empirical test. Finally, they traced the impact of political events moving from one market to another using Granger Causality Tests within Markov Switching VAR model. The results confirm the changes in the market volatility as a result of some domestic and international events that impact domestic economy and the financial market.

(Akysa and Shakil, 2009) examined the relationship between aggregate stock market trading volume and daily stock returns during December 2007-October 2008 when the events happened in Pakistan. They have conducted this to study and evaluate the instability in the stock market that result from the events & the dependency of fluctuations in stock returns because of changes in trading volume. The hypothesis of this study states "There is an impact of political events on trading volume and stock return". Trading volume, stock return, and political instability are the variables used in this paper. Data is collected from KSE 100 index, and it was collected from the data provided by "business recorder" on the internet and daily newspaper business recorder A Correlation between independent (trading volume) & dependent (stock return) variables when the pre and post period of events occur was also calculated. After the analytical process, they drew the conclusion that events significantly affect the trading volume and stock returns of KSE 100-INDEX. The study indicates that due to events changes in the trading volume, fluctuations in the stock returns take place.

(Laverde et. al, 2009) checked the relationship among crime, political uncertainty, and market returns volatility in Colombia. Daily data from the last five years was used (July 2001 to October 2006) to confirm the link between variables. Their results showed that political uncertainty and crime are important determinants of market returns volatility. Market returns are an activity that is partly influenced by crime while political uncertainty has a negative impact on market returns of Colombia. Political stability might accelerate the long-term growth.

(Ahmed and Farooq, 2008) studied the effects of the terrorist attacks of September 11, 2001 and its impact on the stock market volatility. They used daily returns data from Karachi Stock Exchange and analyzed the impact of 9/11 attacks by studying the returns in pre-9/11 and post 9/11. They found that the stock market response has changed adversely during the post 9/11 period in comparison to those during the pre-9/11 period.

(Masood, 2008) has researched how political risks and events have influenced Pakistan's stock markets from 1947 to the present. In this paper, the researcher analyzed Pakistan's political risks and events that have affected the country's stock markets since 1947. The hypotheses of this study state that political events have a great impact on stock market returns. Political risk, are considered as the variables used in this paper. He used questionnaires from to collect the data from historians, economists, politicians, government officials, bankers and stock market analysts in Pakistan and to make predictions using Bayesian Hierarchical Modeling and Markov Chain Monte Carlo (MCMC) techniques. The findings show that the probability of an event in any year is relatively high with an average arrival rate of 1.5 events per year with no time trend. Finally, the researcher found out that Pakistan's political risk carries a risk premium between 7.5% and 12%, which indicates that political events have a significant impact on stock markets.

(Robbani, 2008) has conducted an econometric analysis of stock market reaction to political events in the emerging markets. The purpose of this study is to conduct a critical analysis of the relationship between political events and the movement of stock markets in some of the emerging markets. Stock markets have been developing in many countries in Asia, Latin America, and Africa. Many of these countries are still facing political unrests that are directly or indirectly affecting the stock market. In this paper, the researcher has analyzed the effect of political events on the price of some selected emerging stock market indices. One of the indices is selected from each of the following four countries: India, Indonesia, Pakistan and Sri Lanka. It is believed that a well- developed stock market is the proxy for all events that take place in the economy. For a stock market to be efficient to that extent, prices should be adjusted based on economic and non- economic relevant information. He attempted to test this hypothesis for some of the emerging markets where political uncertainties are more common. His results showed that financial markets do not ignore important political events. Stock market prices reacted properly only to those events that seem to have some long-term effects. The results also support the notion that emerging stock markets are of semi-strong form efficiency in the sense they reflect not only relevant economic information, but also important political information through their pricing.

(Girard & Omran, 2007) studied the effect of political risk on five emerging markets (Egypt, Jordan, Morocco, Saudi Arabia, and Tunisia) for the period 1997 to 2001. They used the composite risk rating provided by the International Country Risk Guide (ICRG) to measure the impact of political risk on stock returns, in addition to the company's fundamental valuation, such as price-to-earnings ratio, dividend yield, and price-to-book ratio. Data related to political, financial and economic risk were obtained from the ICRG. They found that the company's fundamental and country risk rating factors help explain the returns in selected markets. They also suggest that despite of financial, political, and

economic reforms, there is still an impediment for investors due to political risk in these emerging markets.

(Hussain and Qasim, 2007) have explored Pakistan and the political events that have affected its stock markets. They measured Pakistan's political risk and its evolution since its independence with respect to the stock market and estimate cost of this risk in terms of a financial risk premium. The researchers used trading volume, stock return, and political instability as their variables. Hypotheses states that stock returns moved too much due to change in the fundamentals, and the aggregate expected returns. The data has been collected from the KSE official website. It was analyzed for the last 4 decades. This analysis shows that Pakistani equity market gained momentum in the 1960s and made significant progress in listings and capitalization. However, the market lost its momentum in the 1970 due to the political turmoil in the country and the nationalization policies.

2.10 COMMENTING ON PREVIOUS STUDIES

Most of previous studies examined the impact of political uncertainty, such as strikes, assassinations, riots, demonstrations, government longevity, government change, government procedures, terrorism activities, volatility regime, regime type, and elections. They used different methodologies to test the impact of political risk on markets' return, such as crash methodology, regression, correlation, causality test, questionnaires, and descriptive statistics. However, few studies have used Event Window to analyze the impact of political events on stock returns.

This study is distinguished from other previous studies because :

1. It examines an unconventional topic in PEX that revolves around the impact of political events on Palestine securities Exchange return. The researcher has not come to any other studies that have dealt with this topic in Palestine.
2. The timeframe of the study is long (between 1997-2016) and this has not also been taken into account by other studies.
3. It used large number of events that have not been tackled by other studies (previous studies tackled 1-6 events, while this study tackles 27 events).
4. The first study which was completed in Palestine under the effect of occupation.

CHAPTER THREE

METHODOLOGY

3.1 INTRODUCTION

This research has used the Event Study Methodology to measure its impact on PEX. It had been used by Akysha and Shakil (2009), Laverde et al. (2009) and Gul et al. (2013) for studying political events. This research also uses Event Study Methodology to assess the political events on the stock market returns as a comprehensive market phenomenon.

3.2 RESEARCH DESIGN

The study was based on Event Study Methodology to establish the behavior of stock return between (1997-2016). The event window constricted one day, 10 days, 15 days and 20 days before and after event.

3.3 RESEARCH METHODOLOGY

Two different variables were involved in this study. Political events as the independent variable while stock returns as the dependent variables. Political events are measured by dummy variables. Days before these events take value (0) and after the events days take value (1). This study used stock returns as dependent variable since it tries to check whether or not stock returns are affected by political events. (AL-QUDS INDEX) stock returns before and after the occurrences of political events were collected and investigated.

This study used logarithmic return to solve the problem of unit root making data stationary:
 $R_t = \ln (P_t/P_{t-1})$ where

R_t = is a logarithmic return

P_t = current day return

P_{t-1} = previous day return

3.4 EVENTS IDENTIFICATION

Political events from 1997 to 2016 were under examination for the purpose of this research. The selection is made by analyzing the event's intensity that is measured by examining its importance in the front pages of the leading newspapers. The headlines of the political events are gathered and the events are selected for analysis which has given the same prominence in all leading newspapers. The data regarding daily closing index of Palestine stock market was collected from website of Palestine Stock Market. The daily closing index was gathered from 1997 to 2016. These observations do not include weekdays when the stock market is closed or when it is closed for other public holidays. Furthermore, it makes no difference on the selection whether the event is positive or negative. After thorough screening, the following events are considered and described in Table (3.1).

Table (3.1): List of Political Events

Serial number	Date	Political Event	Al-Quds Index Change	Favorable / unfavorable
1	25/09/1997	Mossad agents failed in an attempt to kill Hamas member Khaled Mashal in Amman	103.80	U
2	23/10/1998	Benjamin Netanyahu and Yasser Arafat signed the Wyes River Memorandum.	160.27	F
3	17/05/1999	Ehud Barak of the Labor Party elected Prime Minister.	165.99	F

4	28/09/2000	Arafat named the second intifada the Al-Aqsa Intifada after Sharon's visit, for the Al-Aqsa Mosque.	260.98	U
5	06/02/2001	Ariel Sharon of Likud elected Prime Minister and refused to continue negotiations with Yasser Arafat at the Taba Summit.	201.96	U
6	27/08/2001	Abu Ali Mustafa, the General Secretary of the Popular Front for the Liberation of Palestine, was assassinated by an Israeli missile shot by an Apache helicopter through his office window in Ramallah.	151.10	U
7	05/06/2002	Israel began construction of the Israeli West Bank barrier to prevent Palestinian entering Israel.	175.80	U
8	19/03/2003	Mahmoud Abbas appointed Prime Minister of the Palestinian National Authority.	145.70	F
9	30/04/2003	The "Road Map for Peace" is presented by the Quartet to the Israelis and Palestinians.	203.07	F
10	22/03/2004	Israeli occupation rocket killed Hamas leader Ahmed Yassin and eleven others in Gaza City.	181.90	U
11	11/11/2004	Yasir Arafat dies in a Paris hospital	252.66	U

12	13/01/2005	Karni border crossing attack. Palestinian killed 6 Israeli	277.73	U
13	25/01/2006	Hamas won by landslide the majority of seats after the Palestinian legislative election.	1022.17	U
14	12/07/2006	Lebanon War: Hezbollah infiltrated Israel in a cross-border raid, captured two soldiers and killed three others.	520.60	U
15	09/01/2007	Israel releases \$100 million in tax revenues they had withheld, to cover the humanitarian needs and other basic expenses of the Palestinians.	592.89	F
16	28/02/2008	Operation "Hot Winter" began. The operation resulted in 112 Palestinians and three Israelis being killed.	599.69	U
17	24/12/2009	Rabbi Meir killed in a drive-by shooting Al-Aqsa Martyrs' Brigades claimed responsibility.	486.01	U
18	14/09/2010	2010 direct talks: A second round of Middle East peace talks between Israel and the Palestinian Authority concluded in Sharm el-Sheikh, Egypt.	500.09	F

19	18/12/2010	American woman stabbed to death by Palestinian.	486.59	U
20	07/11/2011	Palestine won membership of UNESCO.	472.85	F
21	14/11/2012	Israeli occupation killed Ahmed Jabari, second-in-command of the military wing of Hamas.	456.79	U
22	15/1/2013	Four Palestinians were killed by Israeli occupation within a week	469.14	U
23	23/04/2014	Palestinian Authority (Fatah) and Hamas sign reconciliation agreement to create a Palestinian unity government, effectively ending Israeli-Palestinian peace talks.	533.20	F
24	03/10/2015	The young man Muhannad Halabi from the town of Sarda stabs a settler in the Asbat Gate in the Old City of Jerusalem.	479.20	U
25	13/11/2015	2 Israeli civilians killed and 1 wounded in shooting attack near Hebron	506.55	U
26	08/06/2016	Two Palestinian gunmen opened fire at a Max Brenner Cafe in the Sarona Market, killing four people and injuring seven others.	497.46	U

F: Favorable

U: Unfavorable

3.5 EVENT WINDOW

The event window selection is an empirical issue. It is a too long window that will absorb the impact of other economic, non-economic, and political events that are out of interest for this research, in addition to a window that is too short and which will not be able to analyze the effect of an event. To avoid the impact of other events on the research, the researcher used event windows one day, 5 day, 10 days , 15 day and 20 days before and after an event for analysis.

CHAPTER FOUR

RESULTS AND ANALYSIS

4.1 INTRODUCTION

The research seeks to identify whether the differences in Mean Index returns before and after the political events are favorable or unfavorable. Therefore, the hypotheses that the study seeks to test can be formulated as follows:

H1: Mean Index returns before and after the political events are different. ($m_1 \neq m_2$).

H2: Mean Index returns before and after the favorable political events are different. ($m_1 \neq m_2$).

H3: Mean Index returns before and after the unfavorable political events are different ($m_1 \neq m_2$).

4.2 DESCRIPTIVE STATISTICS OF THE DATA BEING USED.

Table (4.1): Descriptive Statistics

Observations	Mean	Standard Deviation	Minimum	Maximum	Skewness	Kurtosis
7481	0.0002333	0.01057854	-0.16956	0.18336	0.495	32.188

The data consisted of 7481 observations collected from (1997 to 2016). The mean value for logarithmic returns was 0.0002333 with a minimum value of -0.16956 and maximum value of 0.18336. The disparity in the minimum and maximum values for the data shows the wide range in stock returns on different days. The standard deviation is 1.057854 % which means that the data has some deviations from the average value. Also, Kurtosis of 32.188 suggested the data to be slightly leptokurtic. The data has a skewness of 0.495, which is close to 0 suggesting the data to be normal.

4.3 TESTING THE HYPOTHESIS

4.3.1 Impact of political events

Table (4.2): Empirical Results for Political Events

TEST	1-day Window	5-days Window	10-days Window	15-days Window	20-days Window
Levene's Test value	0.037	0.008	0.273	0.361	1.536
P-value	0.849	0.931	0.603	0.551	0.221

Levene's Test was conducted to find if the data would consider t-value for assumed or non-assumed equal variances.

4.3.1.1 Impact of Political Events using 1-day Event Window: Referring to Table 4, the P-value using 1-day event window is 0.849. This value is greater than 5% which means that stock returns before and after political events were not different. So, there is no impact of political events on stock returns using 1-day window.

4.3.1.2 Impact of Political Events using 5-days Event Window: The P-value for the study using a 5-day Event window is 0.931. This value is greater than 5% which means that stock returns before and after political events were not different. So there is no impact of political events on stock returns using 5-day window.

4.3.1.3 Impact of Political Events using 10-days Event Window: The P-value for the study using a 10-day Event window is 0.603. This value is greater than 5% which means that stock returns before and after political events were not different. So, there is no impact of political events on stock returns using 10-day windows.

4.3.1.4 Impact of Political Events using 15-days Event Window: The P-value for the study using a 15-day Event window is 0.551. This value is greater than 5% which means that stock returns before and after political events were not different. So, there is no impact of political events on stock returns using 5-day window.

4.3.1.5 Impact of Political Events using 20-days Event Window: The P-value for the study using a 20-day Event window is 0.221. This value is greater than 5% which means that stock returns before and after political events were not different. So, there is no impact of political events on stock returns using 20-day windows.

4.3.2 Impact of favorable political events

Table (4.3): Empirical Results for Favorable Political Events

TEST	1-day Window	5-days Window	10-days Window	15-days Window	20-days Window
Levene’s test value	0.052	0.002	0.059	0.283	0.268
P-value	0.823	0.967	0.812	0.603	0.613

Levene’s Test was conducted to find if the data would consider t-value for assumed or non-assumed equal variances.

4.3.2.1 Impact of Favorable Political Events using 1-day Event Window: Referring to Table 4, the P-value using 1-day event window is 0.823. This value is greater than 5% which means that stock returns before and after favorable political events were not different. So, there is no impact of favorable political events on stock returns using 1-day window.

4.3.2.2 Impact of Favorable Political Events using 5-days Event Window: The P-value for the study using a 5-day Event window is 0.967. This value is greater than 5% which

means that stock returns before and after favorable political events were not different. So, there is no impact of favorable political events on stock returns using 5-day window.

4.3.2.3 Impact favorable Political Events using 10-days Event Window: The P-value for the study using a 10-day Event window is 0.812. This value is greater than 5% which means that stock returns before and after favorable political events were not different. So, there is no impact of favorable political events on stock returns using 10- days windows.

4.3.2.4 Impact of favorable Political Events using 15-days Event Window: The P-value for the study using a 15-days Event window is 0.603. This value is greater than 5% which means that stock returns before and after favorable political events were not different. So, there is no impact of favorable political events on stock returns using a 15-day window.

4.3.2.5 Impact of Favorable Political Events using 20-days Event Window: The P-value for the study using a 20-day Event window is 0.613. This value is greater than 5% which means that stock returns before and after favorable political events were not different. So, there is no impact of favorable political events on stock returns using 20-days windows.

4.3.3 Impact of unfavorable political events

Table (4.4): Empirical Results for Unfavorable Political Events

TEST	1-day Window	5-days Window	10-days Window	15-days Window	20-days Window
Levene’s test value	1.279	0.036	0.552	0.078	1.099
P-value	0.265	0.851	0.462	0.782	0.302

Levene’s Test was conducted to find if the data would consider t-value for assumed or non-assumed equal variances.

4.3.3.1 Impact of Unfavorable Political Events using 1-day Event Window: Referring to Table 5, the P-value using 1-day event window is 0.265. This value is greater than 5% which means that stock returns before and after unfavorable political events were not different. So, there is no impact of unfavorable political events on stock returns using 1-day window.

4.3.3.2 Impact of Unfavorable Political Events using 5-days Event Window: The P-value for the study using a 5-day Event window is 0.851. This value is greater than 5% which means that stock returns before and after unfavorable political events were not different. So, there is no impact of unfavorable political events on stock returns using a 5-day window.

4.3.3.3 Impact of Unfavorable Political Events using 10-days Event Window: The P-value for the study using a 10-days Event window is 0.462. This value is greater than 5% which means that stock returns before and after unfavorable political events were not different. So, there is no impact of unfavorable political events on stock returns using a 10-day window.

4.3.3.4 Impact of Unfavorable Political Events using 15-days Event Window: The P-value for the study using a 15-day Event window is 0.782. This value is greater than 5% which means that stock returns before and after unfavorable political events were not different. So, there is no impact of unfavorable political events on stock returns using a 15-day window

4.3.3.5 Impact of Unfavorable Political Events using 20-days Event Window: The P-value for the study using a 20-day Event window is 0.302. This value is greater than 5% which means that stock returns before and after unfavorable political events were not different. So, there is no impact of unfavorable political events on stock returns using a 20-day windows.

CHAPTER FIVE

CONCLUSIONS

&

RECOMMENDATION

5.1 CONCLUSIONS

results are consistent with (Najaf et. al, 2015) as they explored the relationship between political events in Pakistan on the stock market development. The paper presents data concerning the reaction of financial markets to political events in Pakistan between (2011-2014). T-statistic is used to measure the impact of political events on stock exchange market. To determine the Average return (AR), Moving Average Method is used .The results of the study have shown that there is no significant relationship between stock market returns and political events.

However, these results differ from other studies' results: (Hira, 2017), (Nikolayevich et. al, 2017), (Asteriou&Sarantidis, 2016), (Lam & Zhang, 2014), (Mahmood et. al, 2014) and (Alam, 2013) that all indicated a negative or positive relationship between political risk and stock return.

These results are also consistent with studies that examine the weak-form of market efficiency of PEX. (Alkhatib and Harasheh, 2014) confirmed the results by examining the weak-form market efficiency of Palestine Exchange (PEX) as a developing financial market in the Middle East region. The random walk theory is thoroughly investigated to test whether past indices returns can predict future returns. Observations of past returns of the seven indices of the Palestinian stock market are the key input for the empirical data analysis. The study employs the serial correlation and the Augmented Dickey-Fuller test (ADF) as parametric tests. The runs test is also used as a non-parametric test. Results of the parametric tests are consistent with the alternative hypothesis which states that stock market is inefficient at the weak-form level as the indices exhibited autocorrelation and stationary behavior. Meanwhile, results of the runs test also support the inefficiency of the market as the major index found to be following a pattern rather than a random walk.

Finally, result of the regression analysis of stock indices doesn't support the random walk model.

The final results also agree with the study of (Abushammala, 2011) which tested the efficiency by using the daily prices at the period from January 1st, 2007 to December 31st, 2010. The research aims to test the efficiency of (PEX) to ensure that all investors have the same chances in profit taking, and to research the stationary and random walk of PEX Indices. The study covered the daily prices of the general index, in addition to Al-Quds index. To increase the accuracy of the results, the researcher tested efficiency of the main sectors Indices of (PEX) (industry, banking, insurance, services, and investment). The Researcher, through statistical measures; Argument Dickey fuller (ADF), the Phillips Perron (PP), and the Kwiatkowski-Phillips-Schmidt-Shin (KPSS) proved the inefficiency of the (PEX) in the weak level.

The study concluded from the analysis the PEX is relatively inefficient. The market did not respond to all political events and it can be assumed that these events were lesser important.

The study has suggested that the people of Palestine absorb political instability and uncertainty quickly and it has become a part of their life and it is just a common phenomenon for them. The people react for short period of time and after that they absorb the noisy information. In other word, political uncertainty has become certain in peoples life. The reason of this immunization can be explored further by academic researcher which do not fall in the scope of current study.

finally, There is a direct relationship between the volume of trading and market efficiency, The less trading lead to less the efficiency of the market, And the Palestine securities

exchange are emerging markets and the volume of trading is small, and for this reason there is no impact of political events on Palestine securities exchange returns.

5.2 RECOMMENDATIONS

- ✓ The study employed the Market Model (index) to estimate the normal stock return, another model exists and gives different results. One of such model is CRACH which takes care of heteroscedasticity effect. A future study based on this model is recommended.
- ✓ Analysis can be made on the industry level. The study can also examine the impact of these events on individual stock or and portfolios.
- ✓ Both companies and the PEX should provide more details and explanations about the reasons behind stock price movements. This also applies to sudden swings in stock price of individual companies.
- ✓ This research can help investors in anticipating market performance by understanding the nature of the event.
- ✓ Further studies could be conducted by including more events relating to various sectors of society such as economic, military and events relating to neighboring countries.
- ✓ Researchers can expand their research by adding more political events to this model.
- ✓ Moreover, analysis can be done on the industry level to separately inspect separately the impact of these events on individual stock or on portfolios.

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ملخص

أثر الأحداث السياسية على عوائد بورصة فلسطين دراسة تطبيقية للفترة من (1997-2016)

إعداد

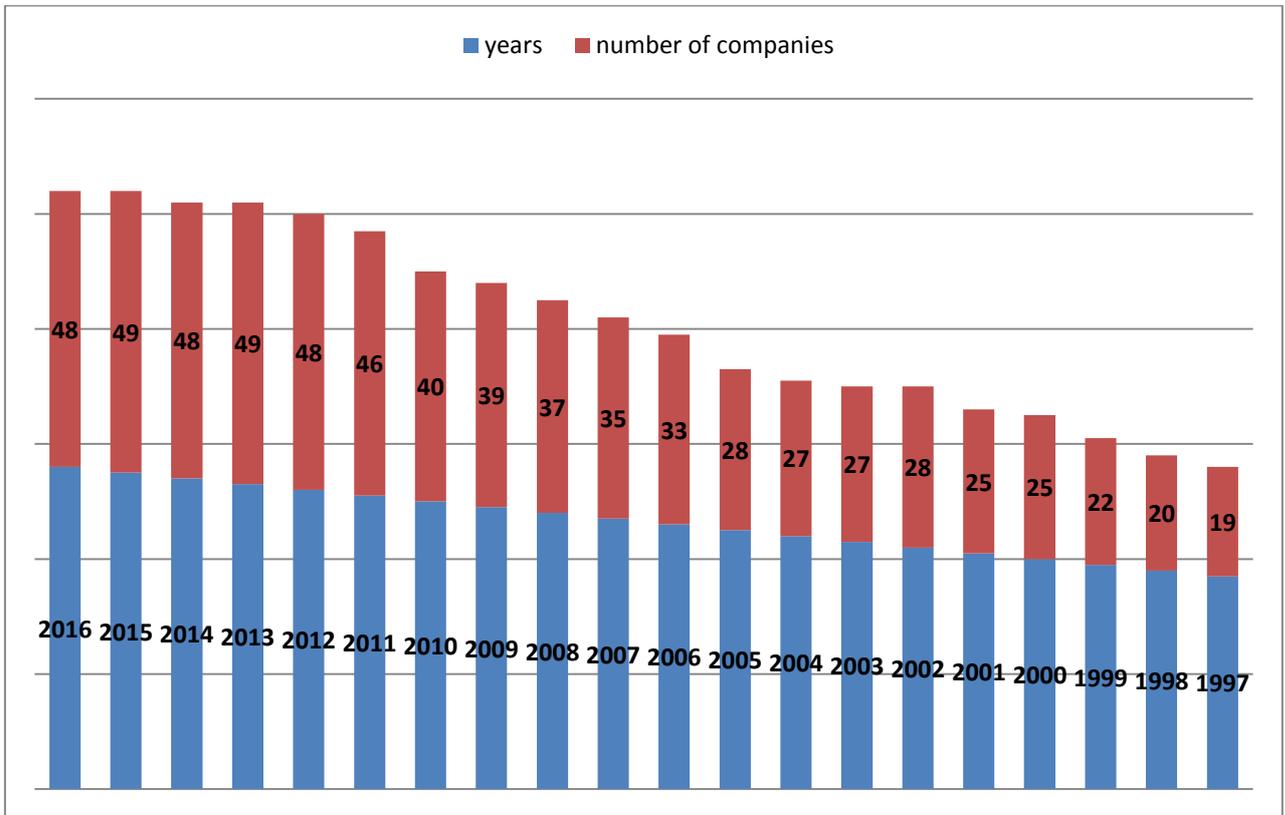
صبحي ماهر ابو عمر

إشراف

د. عدنان قباجة

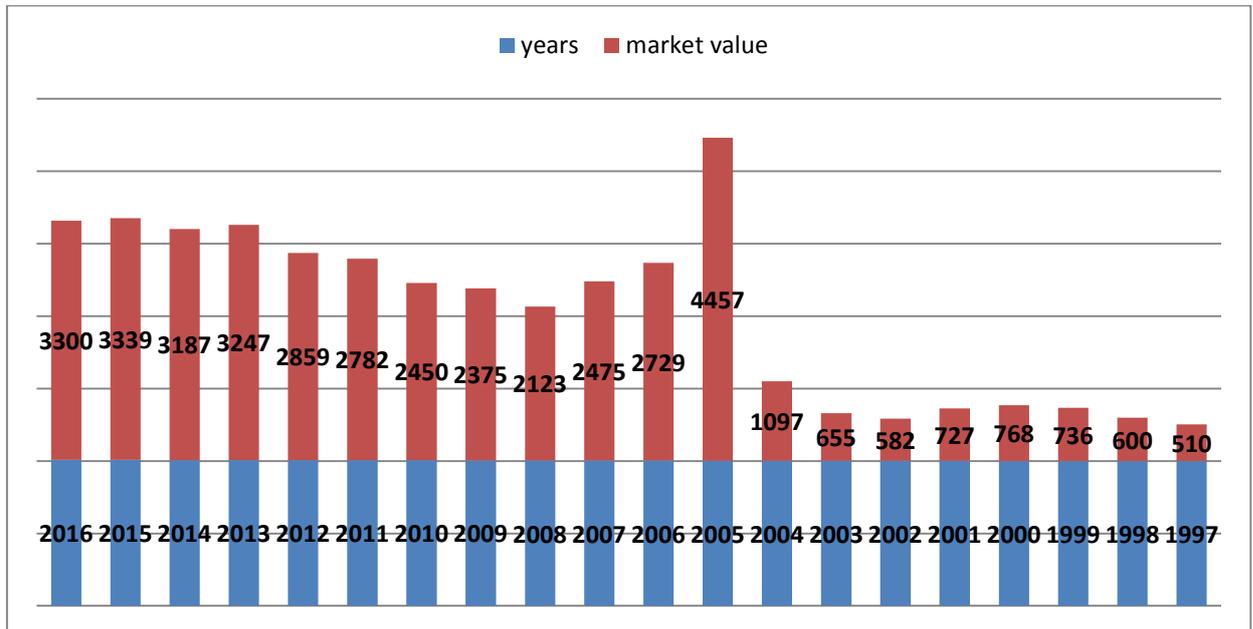
تهدف هذه الدراسة إلى اختبار تأثير الأحداث السياسية على عوائد بورصة فلسطين في الفترة الزمنية الواقعة ما بين الأعوام (1997-2016). حيث تم استخدام منهجية window events ليوم واحد وعشرة أيام وخمسة عشر يومًا وعشرين يومًا قبل الحدث السياسي وبعده. استخدمت هذه الدراسة اختبار الانحراف المعياري (standard deviation) واختبار (Skewnes Test) واختبار (Kurtosis Test) وذلك من أجل معرفة تأثير هذه الأحداث على أسعار الأسهم للشركات المدرجة في سوق بورصة فلسطين. إضافة إلى ذلك تم تقسيم الأحداث السياسية إلى فئتين ، هما الأحداث السياسية المفضلة والأحداث السياسية غير المفضلة. أشارت النتائج العامة إلى أن الأحداث السياسية المفضلة وغير المفضلة لم يكن لها أي تأثير على عوائد وأسعار الأسهم للشركات المدرجة في سوق بورصة فلسطين. وامتازت هذه الدراسة عن الدراسات السابقة بطول السلسلة الزمنية للفترة من (1997-2016) ، إلى جانب الحجم الكبير للملاحظات المستخدمة ، وأظهرت الدراسة معلومات ضرورية للمستثمرين لمساعدتهم في اتخاذ القرارات. وقد أوصت الدراسة بدراسة الأحداث السياسية على مستوى القطاع الواحد داخل السوق إلى جانب إمكانية استخدام أساليب إحصائية لدراسة أسباب عدم وجود تأثير للأحداث السياسية على عوائد بورصة فلسطين .

Figure (2): Number of Companies Listed in PEX



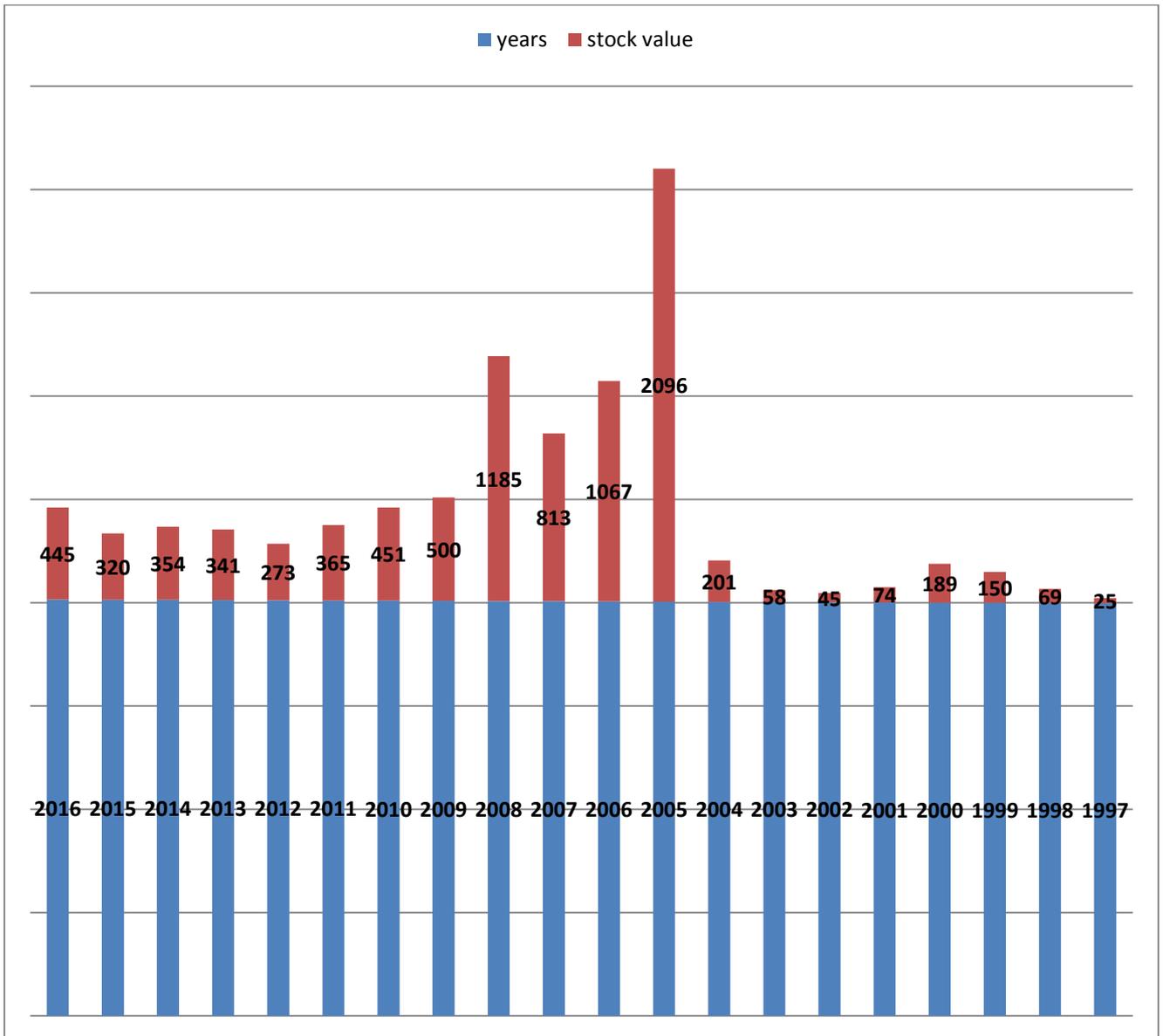
As we can see, the number of companies listed at PEX was **19** companies to establish the trading at PEX. Also, companies listed continued to increase. In 2006, **five** companies were listed to trading. After this year, a small increase occurred until 2011 when **6** companies were listed. The sum of total companies listed at PEX was **48** at the end of years 2016.

Figure (3): Comparison Market Value (US Million Dollars)



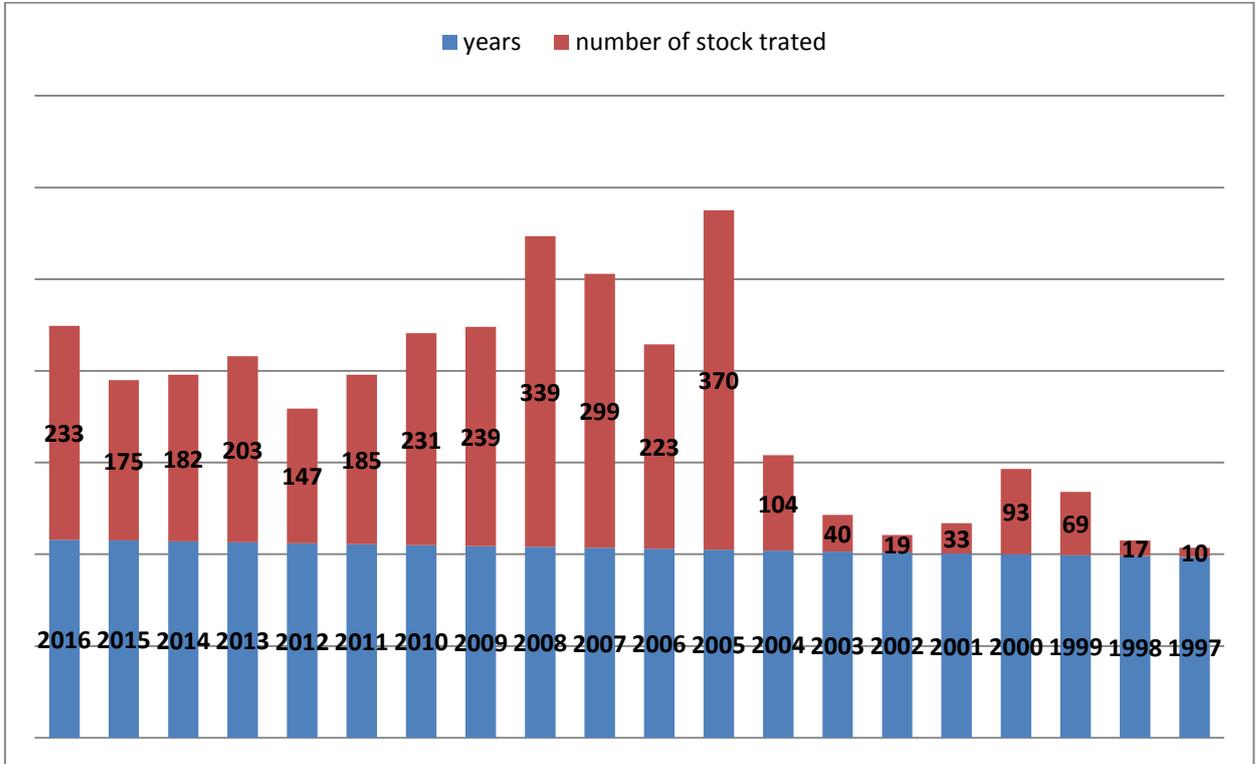
As can be seen from the above figure, the market value begins with **510** million in 1997. After the first years of Palestine stock market opening, the market value remained small; and kept increasing until 2005 when the market value shoot up to **4457** million. Then, the market value dropped in 2006 until 2008 with **2123** million. However, Palestine stock market takes a consistent increase and reached **3300** million at the end of year 2016.

Figure (4): Comparison the Value of Traded Stocks (US Million Dollars)



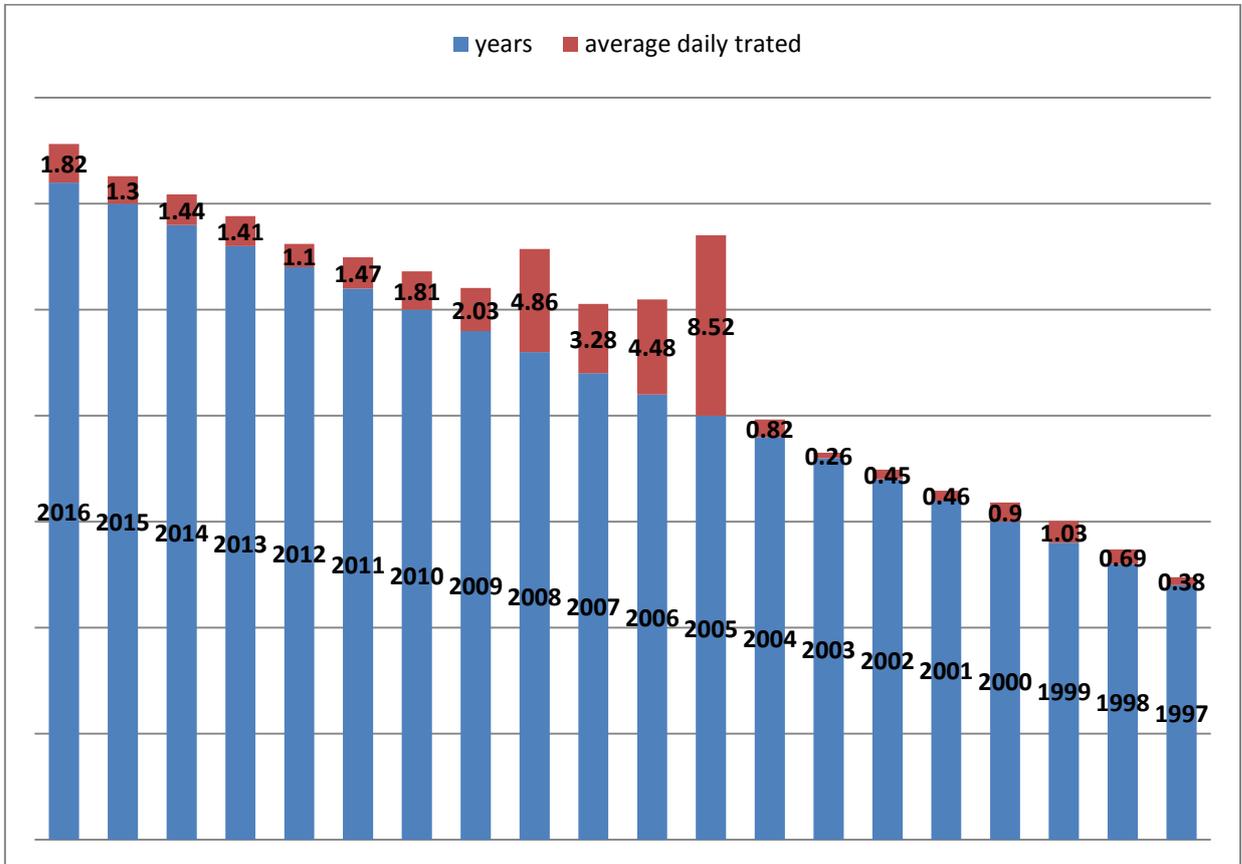
As it can be seen from the above figure, the highest value of stocks traded at PEX in 2005 was **2096** million. At the beginning of PEX in 1997, the value of stock traded were too low and scored 25 million. After that, the value of stock has increased. After 2006, the value of stock has smoothly decreased. However value of stock traded was stable in subsequent periods.

Figure (5): Comparison of the Number of Stocks Traded (Million)



The number of stock traded depends on buyers and sellers. In 1997, and due to the small number of companies listed at PEX, the number was too small with only **10** million stocks traded. In the next following years, the number of stocks traded at PEX increased. Also, the highest number was **370** million stocks in 2005. After this period, the number of stock traded at PEX fluctuated between increasing and decreasing and were very close to **233** million at the end of 2016.

Figure (6): Comparison of the Average Daily Trading Volume (US Million Dollars)



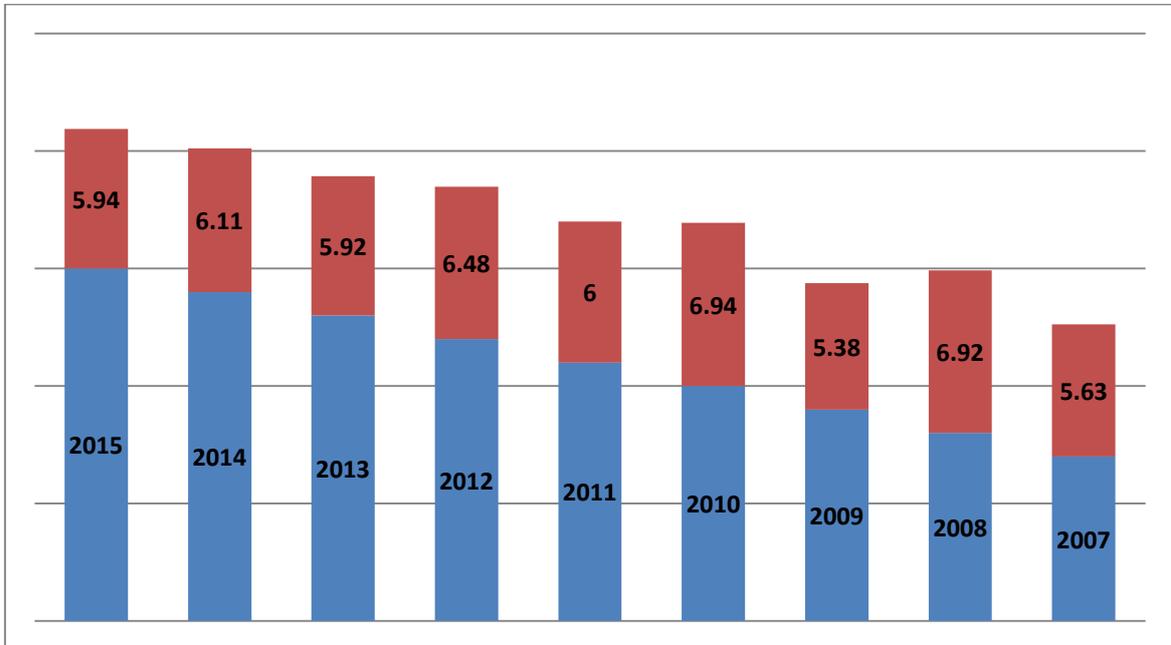
As it can be seen from the above figure, the average daily trading volume was increasing from 1997 to 2004. In 2005, the average daily trading reached the highest point with **8.52** million. After that, the average daily trading volume has witnessed a little drop. However, the average daily trading volume has taken a consistent increase and stopped at **1.82** million at the end of years 2016.

Figure (7): Foreign Investment



Regarding foreign investment, the number of investors was too small between 2006 to 2016 due to the fact that PEX was still an emerging market. This means that PEX cannot meet the profit desired by investors.

Figure (8): Return on Investment (Percentage) (ROI)



Return on Investment (ROI) is a performance measure that is used to evaluate the efficiency of an investment or compare the efficiency of a number of different investments. ROI measures the amount of return on an investment that relates to the investment's cost. To calculate ROI, the benefit (or return) of an investment is divided by the cost of the investment. The result is expressed as a percentage or a ratio. As it can be seen from the above figure, the ROI in 2007 was **5.63%**. However, ROI took a stable rate with an approximate percentage between **5.5%** to **6.5%**.