POLITICAL RISK AND RISK PREMIA: EVIDENCE FROM FIRM LEVEL ANALYSIS

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This study empirically examine the impact of political risk on the excess returns and volatility of the excess returns of individual firms from New Zealand and Pakistan. We extend the current research on the political risk and equity market returns on the firm level to examine which firms are more expose to political risk. The data used in the study consist of 184 firms from New Zealand and 202 firms from Pakistan. Whereas, the data for the political risk is obtained from the international country risk guide (ICRG) for the period of Jan 1990 to December 2013. We find that the impact of political risk is more on volatility than the returns in both markets. However the impact of the political risk is more for Pakistani firms. Further we also empirically analyse the theoretical model of Pastor and Veronesi (2013) and conclude that stock volatilities and correlations are positively associated with political risk when economic conditions are weak.