

WU Gutmann Center Public Lecture

Political Uncertainty and the Stock Market

Prof. Dr. Lubos Pastor

The University of Chicago Booth School of Business.

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Bank Gutmann AG, Schwarzenbergplatz 16, 1010 Wien

Abstract

We study the pricing of political uncertainty in a general equilibrium model of government policy choice. We find that political uncertainty commands a risk premium whose magnitude is larger in poorer economic conditions. Political uncertainty reduces the value of the implicit put protection that the government provides to the market. It also makes stocks more volatile and more correlated when the economy is weak. In addition, we find that government policies cannot be judged by the stock market response to their announcement. Announcements of deeper reforms tend to elicit less favorable stock market reactions.

About Lubos Pastor

Lubos Pastor is Charles P. McQuaid Professor of Finance at the University of Chicago Booth School of Business. He is also a Research Associate at the National Bureau of Economic Research and a Research Fellow at the Centre for Economic Policy and Research. In addition, he serves as an Associate Editor of the Journal of Finance and Journal of Financial Economics, as a Director of the Western Finance Association, and is a former Associate Editor of the Review of Financial Studies. Professor Pastor has been teaching at the University of Chicago since 1999 when he obtained a Ph.D. in finance from the Wharton School at the University of Pennsylvania.

Professor Pastor's research focuses mostly on asset pricing and asset management. He has written on a broad range of topics such as liquidity risk, stock price bubbles, portfolio choice, performance evaluation, return predictability, long-run volatility, cost of capital, technological revolutions, government-induced uncertainty, and IPOs. He has analyzed parameter uncertainty and its resolution by learning. His articles have appeared in the American Economic Review, Journal of Finance, Journal of Financial Economics, Journal of Political Economy, Review of Financial Studies, as well as nonacademic publications such as the Financial Times. He has earned numerous prizes for research and teaching.

Lubos Pastor is a member of the WU Gutmann Center's Academic Advisory Board.

For more information about Professor Pastor: <http://www.ChicagoBooth.edu/fac/lubos.pastor/>

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