ABSTRACT

This paper shows that the Sri Lankan stock market reacts to, some of, it's political activities. While anecdotal claims hint at this possibility, this paper evaluates this claim empirically. For an observation, political events such as dissolutions, elections, bombings from Sri Lankan forces, bombings from LTTE, riots, political assassinations, fall of LTTE and UN resolution against Sri Lankan which took place between 2000 and 2012, 22 events are tested. The model is based on the assumption that Sri Lanka stock market movement is with respect to the world market movement. The modified version of the model used by Geoffrey (2001) without dummy, with dummy and constant mean return model is used. General result shows that the market reacted negative and significant on hearing the dissolution announcement and from the election date market reacted positive and significant for a period of three days. Market reacted positive for a period of certain days on hearing the announcement of bombings from Sri Lankan forces but insignificant. Market reacted negative and significant on hearing the riot announcement. Market reacted negative for a period of certain days on hearing the announcement of bombings from LTTE but insignificant. Market reaction for political assassination and UN resolution against Sri Lanka was insignificant. On hearing the announcement of fall of LTTE market reacted positive and highly significant.