Web Appendix for "The Political Sources of Systematic Investment Risk: Lessons from a Consensus Democracy"

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This appendix contains descriptive statistics, results from pre-estimation stationarity tests, and additional robustness checks. Due to space constraints, these are not reported in detail in the paper.

1 Descriptive Statistics

Table 1 presents descriptive statistics for our main independent variables.

– table 1 about here –

2 Stationarity

An important condition for consistent estimation in time series econometrics is stationarity. We used several widely accepted unit root tests to ensure the stationarity of our variables. The results from Augmented Dickey-Fuller (ADF) and Phillips-Perron tests are reported in table 2. These soundly reject the null hypotheses of non-stationarity.

– table 2 about here –

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3 Robustness

In order to evaluate whether our estimation results are driven by outliers we re-estimated all models using robust regression (results shown in table 3 in the paper). However, in order to economize on space, graphs of the combined partisan effect on systematic risk are not included in the paper. These graphs can be found below. Figure 1 shows the combined partisan effect distinguishing between unified and divided government if we use robust regression and setting the estimation window to 15. The results are very similar to those reported in the paper.

– figure 1 about here –

Figure 2 shows the combined partisan effect again based on results from robust regression, but now we use an estimation window of 30 days. The conclusions remain consistent with those drawn from the estimations reported in the paper.

– figure 2 about here –

Right-leaning governments reduce financial risk, with the effect being significantly stronger and different from zero under unified government. Moreover, the risk-reducing effect is moderated by changes in inflation. The stronger inflation increases, the stronger right-leaning incumbents reduce systematic risk.

Table 1: Descriptive Statistics

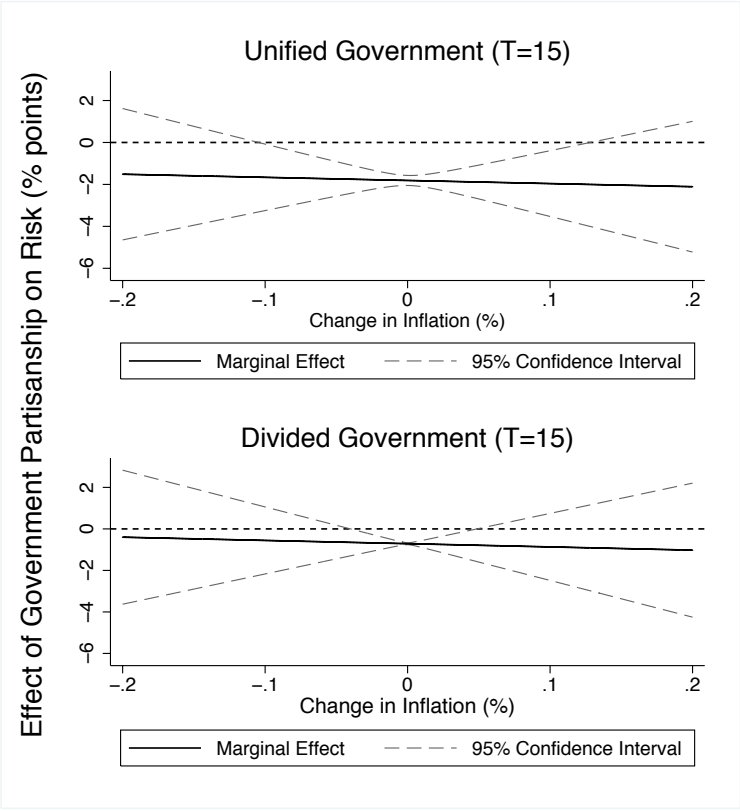
Variable	Mean	Std. Dev.	Min	Max	Data Source/Construction
Financial Risk ($\sigma(r_t)$)	1.262	.688	.288	4.344	Datastream, DAX Total Return Index (DS Code: XETRDAX(RI))/see equations 7 and 8
Pr(Party)	.468	.163	7.68e-14	.993	Raw polling data: Forsa-BUS 1991-2004 available at GESIS (German Social Science Infrastructure Services; http://www.gesis.org/en/index.htm), study numbers ZA2982-ZA2985, ZA3063, ZA3162, ZA3289, ZA330, ZA3380, ZA3486, ZA3675, ZA3909, ZA4070, ZA4192. Data for 2005 available at http://www.wahlrecht.de/umfragen /forsa/2005.htm. /see equation 9
Electoral Closeness	.890	.182	3.07e-13	.999	see equation 10
Coalition Formation	.022	.148	0	1	
Party (1=right-leaning)	.508	.500	0	1	
Second Chamber (right)	.255	.436	0	1	
Grand Coalition	.009	.094	0	1	
Inflation (Δlog)	-.000	.021	-.289	.250	Datastream (DS Code: DCPANNL)
Interest Rate (Δlog)	-.000	.002	-.038	.045	German Federal Bank, http://www.bundesbank.de/statistik /statistik.en.php
GDP pc (Δlog)	.000	.005	-.087	.058	German Federal Statistical Office, http://www.destatis.de/

Table 2: Results from Unit Root Tests

Variable	ADF	PP
DAX Return	-18.053***	-60.646***
Inflation (Δlog)	-18.168***	-60.087***
Interest Rate (Δlog)	-27.399***	-124.523***
GDP pc (Δlog)	-18.105***	-60.090***

PP=Philips-Perron, ADF=Augmented Dickey Fuller. t-values shown, auxiliary regressions include constant (and 10 lags for ADF tests). *$p < .10$, ** $p < .05$, *** $p < .01$.

Figure 1: The Effect of Government Partisanship on Financial Risk Conditional on Inflation and Divided Government, Robust Regression, T=15



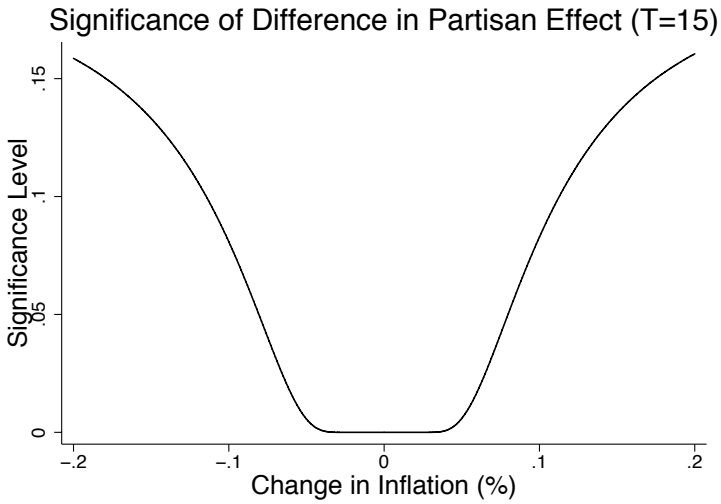


Figure 2: The Effect of Government Partisanship on Financial Risk Conditional on Inflation and Divided Government, Robust Regression, T=30