

## The congressional effect and stock market behavior in emerging democracy: evidence from Taiwan

Chin-Tsai Lin \*

*Graduate Institute of Business and Management  
Yuanpei University  
No. 306, Yuanpei St.  
Hsin-Chu 30015  
Taiwan  
Republic of China*

Yi-Hsien Wang †

*Department of Finance  
Yuanpei University  
No. 306, Yuanpei St.  
Hsin-Chu 30015  
Taiwan  
Republic of China*

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### Abstract

In this paper, we deal with the congressional effect between the pre- and post-democratization on the stock market by the AR(2)-EGARCH(1, 1) model from February 24, 1984 to January 31, 2004. The results found that the congressional effect is negative effect on stock returns but volatility is not significant. However, the democratic effect on stock returns is negative and increased of volatility. However, the democratic effect on stock returns is negative and increased of volatility. Moreover, the congressional effect on stock market returns following democratization significantly exceeds that before democratization, but have no significant effect for the volatility in the same circumstances. These results provide evidences consistent with the contention of liberalization (Hayek (1945), (1948); Popper (1950)).

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\*E-mail: ctlin@mail.yust.edu.tw

†E-mail: holland@mail2000.com.tw

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