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Political risk and the equity trading costs of cross-listed firms

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Running Head: Political risk and the equity trading costs of cross-listed firms

Highlights

- We analyze stocks cross-listed on the NYSE between January 2011 and March 2011.
- Political risk rating and trading costs are not significantly related.
- Some components of the political risk rating are related to trading costs.
- Components of the political risk rating are also related to adverse selection risk.

Abstract

In order to increase investor participation in capital markets and, consequently, minimize the total cost of trading, it is important to identify which political and social attributes most significantly impact trading and adverse selection costs. We examine the effect of the components of the political risk rating compiled by International Country Risk Guide on the equity trading costs of non-U.S. stocks listed on the NYSE in 2011. While the results show a significant effect of political and social attributes on trading costs, they also indicate that this effect is generally not significant on adverse selection costs in periods of extreme price movements. Our analysis allows investors to make a more informed assessment of political risks associated with democratic stability, economic development, government effectiveness, civic cohesiveness and international integration.