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Political uncertainty and the cost of equity capital

Xiaorong Li , Jingbo Luo , Kam C. Chan

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Xiaorong Li  
School of Public Finance and Taxation  
Central University of Finance and Economics  
Beijing 100081  
China  
E-mail: [0020130025@cufe.edu.cn](mailto:0020130025@cufe.edu.cn)

Jingbo Luo  
School of Accountancy  
Jiangxi University of Finance and Economics  
Nanchang 330000  
China  
E-mail: [gaintheend@163.com](mailto:gaintheend@163.com)

Kam C. Chan\*  
Gordon Ford College of Business  
Western Kentucky University  
Bowling Green, KY 42101  
USA  
E-mail: [johnny.chan@wku.edu](mailto:johnny.chan@wku.edu)

## Abstract

We study the impact of political uncertainty on the cost of equity. The change of communist party secretaries every several years in Chinese cities provides a good setting for our analysis. Our results suggest that a firm's cost of equity is higher when facing political uncertainty. In addition, we find that when a firm receives a large amount of government subsidies, the CEO/chairman is politically connected, or when the stock market is a bear market, the adverse effect is stronger. In contrast, after the anti-corruption campaign in 2012 or the city is financially advanced, the adverse impact is less pronounced.

\*corresponding author.

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