Theory

• Political business cycle (PBC)
  – Seminal survey and formalization by Alesina (1988)
  – In order to secure victory, incumbent has incentive to cause favorable outcomes before elections
  – Testable implications: growth, inflation, public spending
  – Studies of OECD economies suggest some evidence of a PBC
  – Data from developing economies offer little support of PBC (Kaplan, Yale, 2006)
Evidence from India

• Khemani, World Bank, 2004
  ➢ Effect of state assembly elections on the policies of state governments in 14 major states, 1960-94
  ➢ Populist cycles to woo uninformed and myopic voters
  ➢ Signaling models with asymmetric information
  ➢ A moral hazard model with high discounting by political agents
Evidence from India

• Khemani, World Bank, 2004
  ➢ Election years have a negative effect on some commodity taxes, a positive effect on investment spending, but no effect on deficits
  ➢ Elections have a positive and large effect on road construction by state public works departments
  ➢ Politicians exert greater effort in managing public works during election years
  ➢ No evidence of a populist spending spree to sway voters just before elections
Evidence from India

• Gupta and Panagariya, 2011
  ➢ Data from 422 races in the 2009 Lok Sabha elections
  ➢ Incumbent parties in higher growth states tend to win re-elections
Evidence from India

• Subramanian and Tantri, Indian School of Business, 2013
  ➢ Huge dataset, 20,000 local and national elections over three decades
  ➢ Strong growth leads to higher likelihood of re-election
  ➢ Voters don’t display myopia; late rise in growth does not alter election outcome
Event study approach

- Examine mean and variance of some macroeconomic indicators around recent Indian Lok Sabha elections
- Growth, inflation, rupee, FII flows, fiscal variables
- Quarterly data
- Beware of external shocks
- Data issue (Missing data from the early 1990s, quality)
Event study approach

- Five elections:
  - 11\textsuperscript{th} Lok Sabha, April/May 1996
  - 12\textsuperscript{th} Lok Sabha, February/March 1998
  - 13\textsuperscript{th} Lok Sabha, September/October 1999
  - 14\textsuperscript{th} Lok Sabha, April/May 2004
  - 15\textsuperscript{th} Lok Sabha, April/May 2009

- Design event study by examining the data three quarters before and three quarters after the election quarter
Study indicator: Growth

Feb/Mar 1998
Sept/Oct 1999
April/May 2004
/May 2009

% yoy

Q-3 Q-2 Q-1 t Q+1 Q+2 Q+3

Preliminary work. Do not cite.
Study indicator: Growth

Dotted lines are +1 and -1 std dev bands
Study indicator: Inflation

April/May 1996
Feb/Mar 1998
Sept/Oct 1999
April/May 2004
/May 2009

%yoy
Q-3 Q-2 Q-1 t Q+1 Q+2 Q+3

Preliminary work. Do not cite.
Study indicator: Inflation

Dotted lines are +1 and -1 std dev bands
Study indicator: Rupee

%qoq

April/May 1996
Feb/Mar 1998
Sept/Oct 1999
April/May 2004
/May 2009

Q-3 Q-2 Q-1 t Q+1 Q+2 Q+3

April/May 1996
Feb/Mar 1998
Sept/Oct 1999
April/May 2004
/May 2009

Preliminary work. Do not cite.
Study indicator: Rupee

Dotted lines are +1 and -1 std dev bands
Study indicator: Rupee

Results after removing the Asian crisis data

Dotted lines are +1 and -1 std dev bands
Study indicator: FII flows

![Graph showing FII flows over time with specific dates and USD billions](#)
Study indicator: Fiscal (revenues)

Preliminary work. Do not cite.
Study indicator: Fiscal (expenditures)
Things to do

- Need more and better data
- 1991 elections
- Seasonally adjusted data
- Break fiscal data into tax and non-tax revenue, plan and non-plan data, some measure fiscal stance
- Try annual data
- Try stock market data