

Betting on the Wrong Horse:

Lobbying on TPP and the 2016 U.S. Presidential Election

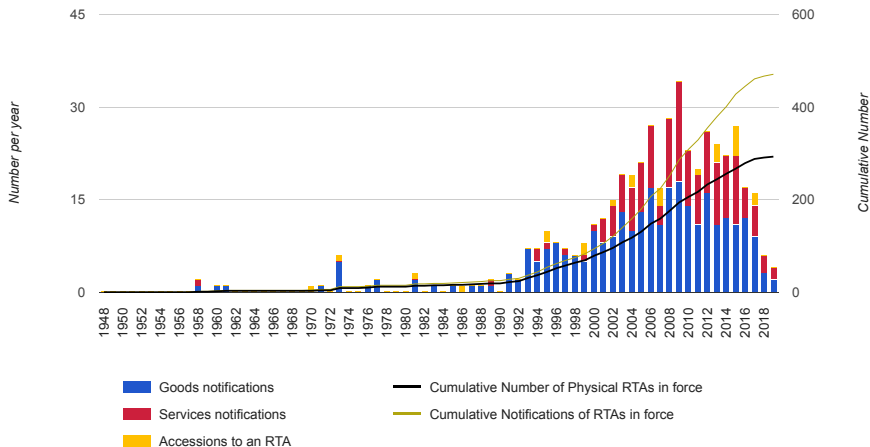
Michael Blanga-Gubbay (ECARES, ULB)
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5th OEET Workshop: Trade Wars and Global Crises
University of Turin

October 5, 2019

Recent decades have seen a proliferation of **Free Trade Agreements**

Number of RTAs notifications and RTAs in force



- Firms are crucial players for the ratification of these agreements, and their gains from trade are highly heterogeneous
- Theory and evidence:
 - **New new trade theory**: differences across firms, even within narrowly defined sectors (e.g. Bernard and Jensen, 1999; Melitz, 2003)
 - **Political economy**: “Trade agreements are often influenced by a small set of rent-seeking interests and politically well-connected firms” (Rodrick, 2018)
- To understand the role and gains of these politically well-connected firms, we examine differences in **firms' stock prices** according to their stance on the Trans-Pacific Partnership [▶ What is TPP](#)

- Using detailed information from lobbying reports we construct a dataset of **firms expenditures** on the **Trans-Pacific Partnership**
- ① We conduct an **event-study** on the 2016 U.S. presidential election and uncover that, following the unexpected election of Donald Trump
 - Firms who lobbied on the agreement **underperformed** in the stock market
 - This **negative effect was persistent**, and **correlated to the amount spent** in lobbying
- ② Evidence of **heterogeneous gains from trade**: lobbying corporations are able to **extract rents** from the ratification of FTAs
 - Lobbying probability and expenditure are highly **correlated to provisions** included in the TPP agreement but suspended under CPTPP

Plan of Talk

- ① Introduction
- ② **Related Literature**
- ③ Event-study
- ④ Data
- ⑤ Results
- ⑥ Conclusions

- Stock prices under uncertainty:

Campbell *et al.* (1997); Acemoglu *et al.* (2016); Bouoiyour and Selmi (2017a,b); Wolfers and Zitzewitz (2018); Ramelli *et al.* (2018)

- Political economy of trade policy:

Grossman and Helpman (1994, 1995a,b); Bombardini and Trebbi (2012); Kim (2017), Rodrik (2018); Blanga-Gubbay *et al.* (2019)

- Trade with heterogeneous firms:

Bernard and Jensen (1995; 1999); Melitz (2003); Helpman, Melitz and Yeaple (2004); Bernard *et al.* (2007); Antràs *et al.* (2017)

- Trade agreements in the 21st century:

Baldwin (2011); Antràs and Staiger (2012); Allee and Lugg (2018)

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Betting on the Wrong Horse

- ① Firms reveal their preferred trade policy outcome by lobbying on the TPP agreement
 - Market participants form positive expectations about firms' future gains from trade
- ② Trump is vocal against the TPP, but all forecasts underestimate his chances to win
 - Market perception of firms' future profits from TPP does not change
- ③ Trump wins against all odds
 - Investors adjust downwards their expectations about future profits of lobbying firms

Trade policy in the 2016 US elections

- Opposing TPP was one of Trump's major topics during the US presidential campaign



Donald J. Trump ✓

@realDonaldTrump



The Trans-Pacific Partnership will lead to even greater unemployment. Do not pass it.

11:00 PM - Apr 22, 2015



147



162 people are talking about this



Donald J. Trump ✓

@realDonaldTrump



The Trans-Pacific Partnership will increase our trade deficits & send even more jobs overseas. This is a bad deal. Time for smart trade!

5:50 PM - Jun 3, 2015



233

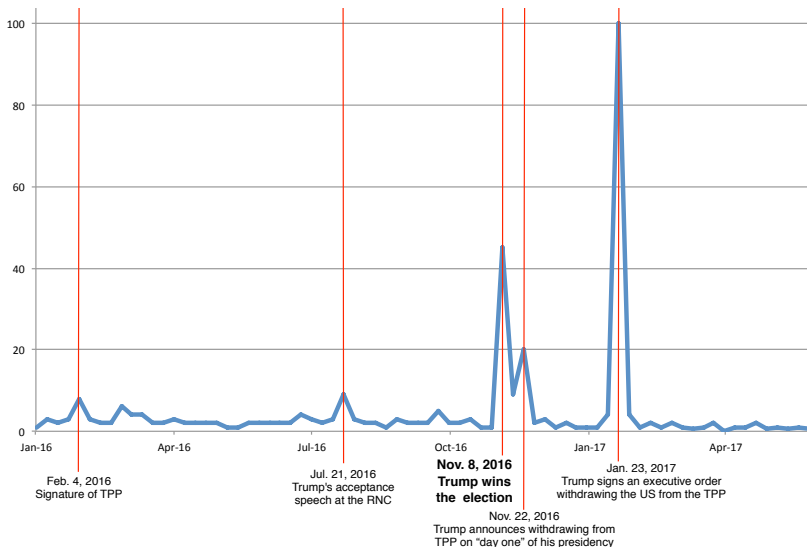


230 people are talking about this












Public Interest in TPP led by Donald Trump

Google Trends, Trans-Pacific Partnership citations since 2016



US 2016 Presidential Elections Forecasts

- On the eve of the election Hillary Clinton was highly favored to win the presidency

	 NYT	 538	 HuffPost	 PW	 PEC	 DK	 Cook	 Roth. ¹	 Sabato
Win	85% D	71% D	98% D	89% D	>99% D	92% D	Lean D	Lean D	Lean D

Plan of Talk

- ① Introduction
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We use data on lobbying expenditures from [lobbying reports](#) available under the Lobbying Disclosure Act of 1995 [▶ PAC vs Lobby](#) (Bombardini and Trebbi, 2012; Kim, 2017; Blanga-Gubbay *et. al*, 2018)

- We collect all lobbying reports filed in 2016 that mention the words [TPP](#) or [Trans-Pacific Partnership](#)
- Our lobbying dataset is based on all reports [filed by firms](#)
- The reports provide information on the [identity](#) of the lobbying firm, the [amount](#) of expenditures [in favor/against](#) the TPP
- To code the firm's [position on the FTA](#) we use the lobbying reports and official statements (e.g. company websites, statements by CEO)

1. Registrant Name <input checked="" type="checkbox"/> Organization/Lobbying Firm <input type="checkbox"/> Self Employed Individual <u>QUALCOMM, INCORPORATED</u>			
2. Address			
Address1 <u>1730 PENNSYLVANIA AVE, NW</u>		Address2 <u>SUITE 850</u>	
City <u>WASHINGTON</u>	State <u>DC</u>	Zip Code <u>20006</u>	Country <u>USA</u>
3. Principal place of business (if different than line 2)			
City _____	State _____	Zip Code _____	Country _____
4a. Contact Name		b. Telephone Number	c. E-mail
<u>Mrs. Alice Tornquist</u>		<u>2022630024</u>	<u>alicet@qualcomm.com</u>
			5. Senate ID# <u>60674-12</u>
7. Client Name <input checked="" type="checkbox"/> Self <input type="checkbox"/> Check if client is a state or local government or instrumentality <u>QUALCOMM, INCORPORATED</u>			6. House ID# <u>353580000</u>

TYPE OF REPORT

8. Year 2016 Q1 (1/1 - 3/31) ☒ Q2 (4/1 - 6/30) ☐ Q3 (7/1 - 9/30) ☐ Q4 (10/1 - 12/31) ☐
9. Check if this filing amends a previously filed version of this report ☐
10. Check if this is a Termination Report ☐ Termination Date _____ 11. No Lobbying Issue Activity ☐

INCOME OR EXPENSES - YOU MUST complete either Line 12 or Line 13

<p align="center">12. Lobbying</p> <p>INCOME relating to lobbying activities for this reporting period was:</p> <p><u>Less than \$5,000</u> <input type="checkbox"/></p> <p><u>\$5,000 or more</u> <input type="checkbox"/> \$ _____</p> <p>Provide a good faith estimate, rounded to the nearest \$10,000, of all lobbying related income from the client (including all payments to the registrant by any other entity for lobbying activities on behalf of the client).</p>	<p align="center">13. Organizations</p> <p>EXPENSE relating to lobbying activities for this reporting period were:</p> <p><u>Less than \$5,000</u> <input type="checkbox"/></p> <p><u>\$5,000 or more</u> <input checked="" type="checkbox"/> \$ <u>1,730,000.00</u></p> <p>14. REPORTING Check box to indicate expense accounting method. See instructions for description of options.</p> <p><input checked="" type="checkbox"/> Method A. Reporting amounts using LDA definitions only</p> <p><input type="checkbox"/> Method B. Reporting amounts under section 6033(b)(8) of the Internal Revenue Code</p> <p><input type="checkbox"/> Method C. Reporting amounts under section 162(e) of the Internal Revenue Code</p>
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LOBBYING ACTIVITY. Select as many codes as necessary to reflect the general issue areas in which the registrant engaged in lobbying on behalf of the client during the reporting period. Using a separate page for each code, provide information as requested. Add additional page(s) as needed.

15. General issue area code TRD

16. Specific lobbying issues

Support for Trans Pacific Partnership

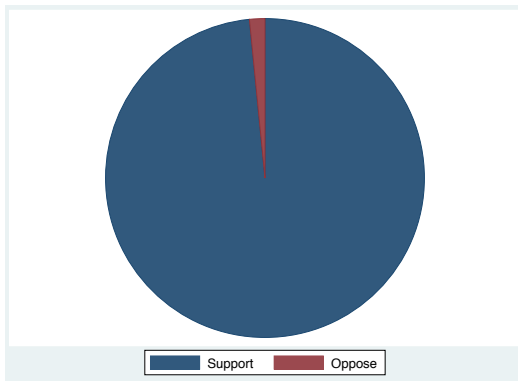
17. House(s) of Congress and Federal agencies ☐ Check if None

U.S. SENATE, U.S. HOUSE OF REPRESENTATIVES



Lobbying Dataset

A first result is that firms **always lobby in favor** of the TPP.

Firms's position on Trans-Pacific Partnership)

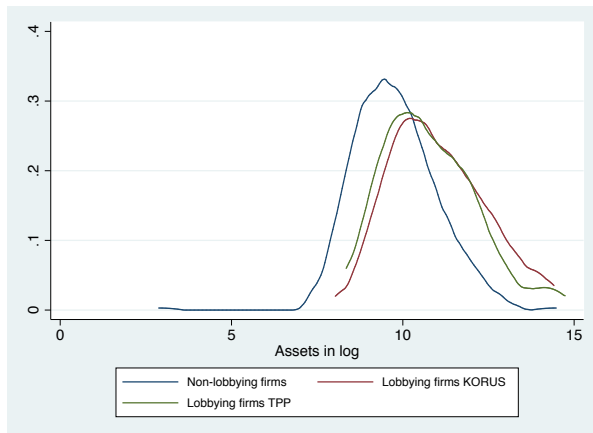


► [Full Lobbying Dataset](#)

- We collect **Daily Returns** of all firms at the NYSE and the Nasdaq
 - To adjust for large movements around the election we compute **abnormal returns** and **cumulative abnormal returns** (Campbell et al.,1997 )
- We match our lobbying database with firm's stock market returns using firms' ticker symbols
- More than **80% of the lobbying firms** are listed in the U.S. stock market
- In order to have more homogeneous treatment and control groups, we restrict our analysis only to S&P 500 firms 

Lobbying firms in the S&P 500

- Even within S&P 500, lobbying firms are larger ▶ K density
- Lobbying is a rare event, and firms self-select into lobbying activity

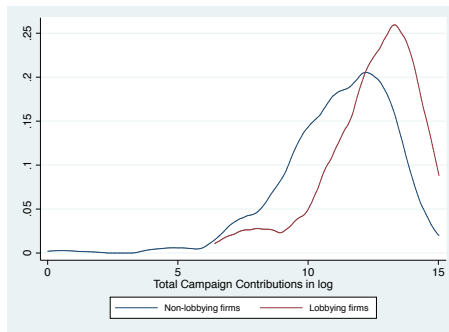


- As a robustness check we restrict sample to firms that lobbied on KORUS ▶ t-test

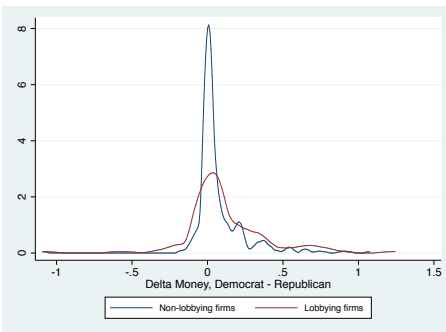
Additional control variables

- To control for the **political leaning** of the firms, we collected their campaign contributions for the 2016 presidential election

Firms lobbying on TPP contribute more



But both groups contribute to both parties

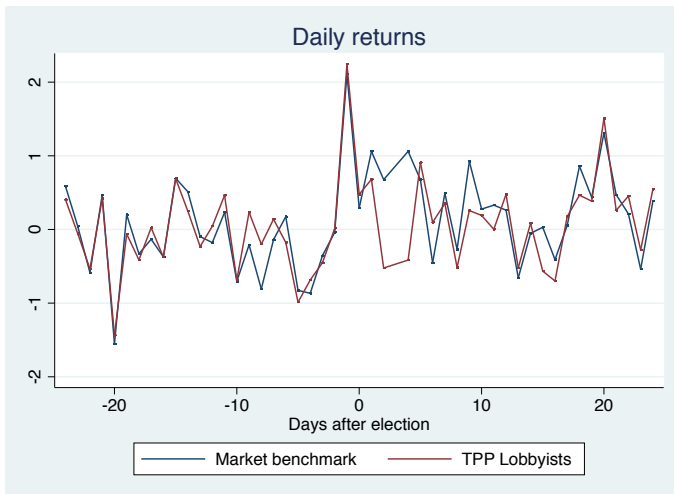


- On average firms pay contributions to both parties but support the republicans more

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- ⑤ **Results**
- ⑥ Conclusions

U.S. Stock Prices around November 8, 2016



Regress stock returns R_{it} on an event window from January 2016 to one week (5 working days) after the election

► Common Trend

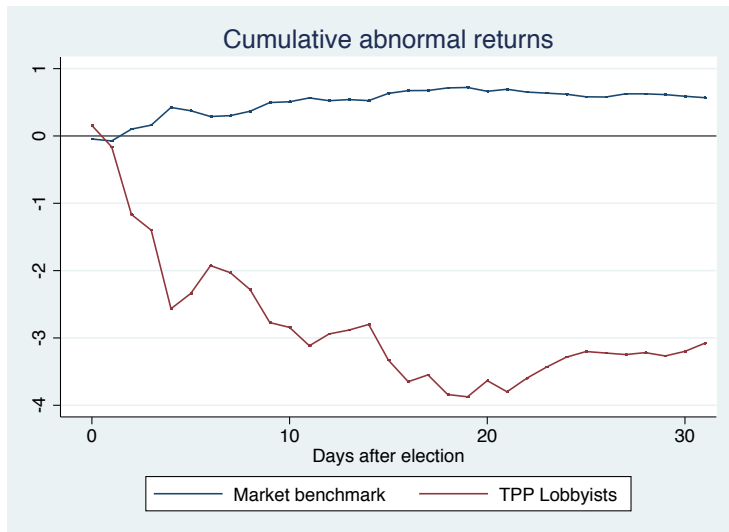
$$R_{i,t} = \beta \text{Lobby}_i + \gamma \text{Election}_t + \delta \text{Lobby}_i * \text{Election}_t + \alpha_i + \tau_t + \varepsilon_{i,t}$$

- we measure our treatment Lobby_i in two different ways:
 - ① ProTPP_i : an indicator equal to 1 if firm i lobbied in favor of the agreement
 - ② ExpenditureTPP_i : the \$ amount of lobbying expenditure of firm i on TPP
- Election_t is an indicator equal to 1 for $t > \text{Nov.8}$
- α_i and τ_t are respectively firm and time fixed effects

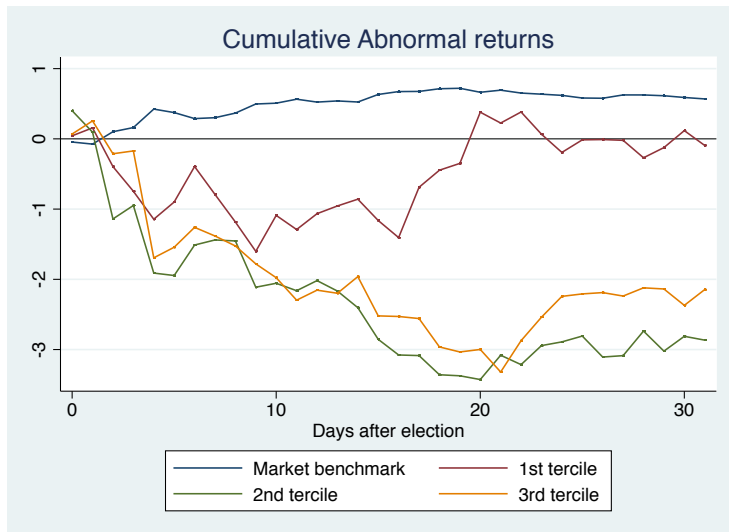
Lobbying firms display **negative returns** following the election

	(1) Daily returns	(2) Daily returns	(3) Daily returns	(4) Daily returns
T	0.149*** (0.0376)	0.964** (0.0608)	0.143*** (0.0375)	0.776** (0.0643)
Pro TPP	-0.049 (0.0461)	0.042 (0.0324)		
Pro TPP*T	-0.622** (0.2553)	-0.564** (0.1749)		
ExpenditureTPP			-0.004 (0.0032)	0.003 (0.0025)
ExpenditureTPP*T			-0.043** (0.0180)	-0.022* (0.0104)
Sample	S&P 500	KORUS	S&P 500	KORUS
Fixed Effects	Firm + Day	Firm + Day	Firm + Day	Firm + Day
S.E. cluster	SIC 1d	SIC 1d	SIC 1d	SIC 1d
N	107823	11359	107823	11359
R ²	0.255	0.375	0.255	0.375

U.S. Stock Prices around November 8, 2016



U.S. Stock Prices around November 8, 2016



Results – CAR and Expenditure

	CAR(1 day)	CAR(1 week)	CAR(2 weeks)	CAR(3 weeks)	CAR(5 weeks)
Expenditure on TPP	-0.782*** (0.1812)	-0.859*** (0.2441)	-1.213*** (0.2556)	-1.757*** (0.4160)	-1.696*** (0.3832)
Contributions to Republicans	0.287** (0.0957)	0.342* (0.1532)	0.378** (0.1142)	0.383** (0.1210)	0.346* (0.1608)
Size	Yes	Yes	Yes	Yes	Yes
Profitability	Yes	Yes	Yes	Yes	Yes
Leverage	Yes	Yes	Yes	Yes	Yes
SIC 2 digit FE	Yes	Yes	Yes	Yes	Yes
Observations	384	384	384	384	384
R^2	0.406	0.384	0.398	0.384	0.374

- We report results for different lengths of the event window to show that the effects were not quickly reversed
- We control for firm characteristics that could have some effect on the relationship between lobbying and returns

Determinants of Corporate Lobbying

- Lobbying corporations were able to **extract rents** from TPP
- TPP was a “deep” trade agreement
 - Trade issues: lowering more than 18,000 tariffs and non-tariff barriers
 - Non-trade issues: IPR, compulsory licensing, ISDS, SOPA...
- In 2018 the remaining 11 TPP countries signed a new multilateral agreement, the **CPTPP**
- **Twenty-two items** from the original TPP have been **suspended under CPTPP**, these are most likely provisions pushed by US corporations
- We can look if corporate lobbying is more correlated to
 - Import and export tariffs reduction
 - Non-trade issues and provisions suspended under CPTPP

Determinants of Corporate Lobbying

	(1) pro TPP	(2) pro TPP	(3) pro TPP	(4) Expenditure	(5) Expenditure	(6) Expenditure
TPP provisions	1.388*** (0.1888)		1.407*** (0.2567)	6.071*** (0.8005)		5.341*** (0.9379)
Pre-agreement Export tariff		0.061 (0.0416)	0.082** (0.0363)		0.230 (0.1535)	0.222* (0.1147)
Pre-agreement Import tariff		0.050 (0.1208)	0.079* (0.0419)		0.153 (0.3048)	0.435** (0.1652)
Firm characteristics	Yes	Yes	Yes	Yes	Yes	Yes
S.E. cluster	SIC	SIC	SIC	SIC	SIC	SIC
N	151521	62685	62685	151521	62685	62685
Pseudo R ²	0.238	0.267	0.396			
R ²				0.279	0.339	0.453

Plan of Talk

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- ⑤ Results
- ⑥ **Conclusions**

- In the last US electoral campaign, trade policy became one of the salient issues under debate
- When looking at heterogeneous firms, only large firms have incentives to lobby, and they tend to gain from FTAs
- We uncover that, following the unexpected election of Trump
 - ① Firms who lobbied on the agreement **underperformed** in the stock market
 - ② This **negative effect was persistent**, and **correlated to the amount spent** in lobbying
 - ③ Lobbying probability and expenditure are related to **specific provisions** that corporations were able to include in the TPP agreement

- We provide evidence that the market updates its information quickly and accurately
 - ▶ True (foregone) profits
 - ▶ Actual withdrawal
- Differently from other studies (Wolfers and Zitzewitz, 2018), using our treatment we find strong market effects from the election of Donald Trump
- More importantly, we provide evidence of the heterogeneous gain from trade
 - This is in line with Rodrik (2018)'s argument that the political economy of FTAs is dominated by large firms that gain from these agreements
 - This event study highlights the role of this small set of rent-seeking and influential lobbying firms by showing their market losses following a trade shock.

Thank you!

More information about my research
www.michaelblangagubbay.com

Trans-Pacific Partnership

- The TPP was the world's largest trade deal
 - TPP encompassed about 800 million people
 - Participating countries accounted for roughly a quarter of global trade and approximately 40% of the world's GDP
- Countries involved
 - Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, and United States
- TPP was a “deep” trade agreement
 - Trade issues: lowering more than 18,000 tariffs and non-tariff barriers
 - Non-trade issues: IPR, compulsory licensing, ISDS, SOPA...
- The Trans-Pacific Partnership was drafted on October 5, 2015 and signed on February 4, 2016

Trump vs. Clinton on TPP

- Hillary Clinton was Secretary of State when the TPP agreement was drafted. In a CNN interview she referred to it as the *the gold standard of trade deals*
- Trump vs. Clinton on TPP:



Donald J. Trump ✓

@realDonaldTrump

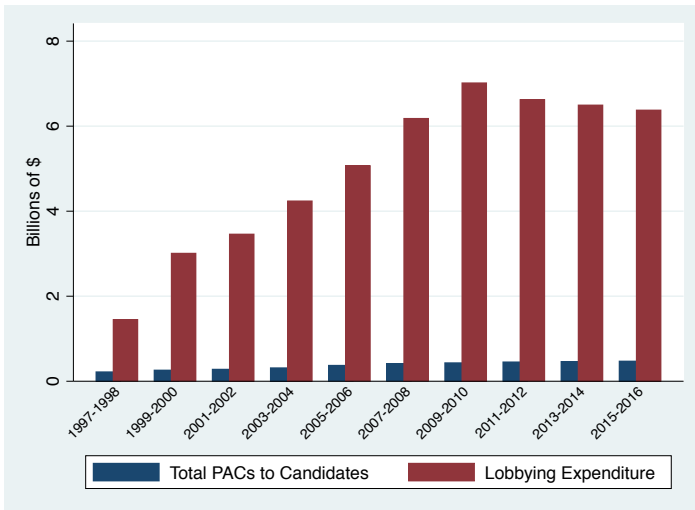


Just like I have warned from the beginning, Crooked Hillary Clinton will betray you on the TPP. [politico.com/story/2016/07/...](https://www.politico.com/story/2016/07/...)

5:01 AM - Jul 27, 2016

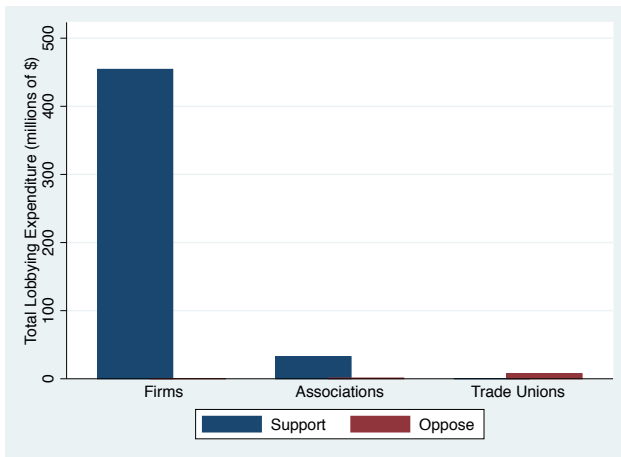
- “You called it the gold standard of trade deals. You said it’s the finest deal you’ve ever seen.” (D. Trump, First Presidential Debate - Sept. 26, 2016)
- Virginia Gov. McAuliffe (Dem.) sais to POLITICO that Hillary Clinton will support the TPP if elected president (July 26, 2016)
- WikiLeaks releases 19.000 emails of John Podesta (Clinton campaign chairman) revealing Clinton’s unclear stance on TPP (October 7, 2016)

Lobbying expenditures vs campaign contributions (all issues)



Full Lobbying Dataset on FTAs

Lobbying expenditures on the ratification of FTAs negotiated by the U.S.



We follow Campbell *et al.*'s (1997) market model to adjust for large movements around the election

- We regress the actual return of firm i (R_{it}) on the S&P 500 index (R_{mt}), on a pre-event period of 250 trading days ending 30 days prior the election

$$R_{it} = \alpha_i + \beta_i R_{mt} + \epsilon_{it} \quad (1)$$

- We recover $\hat{\alpha}_i$ and $\hat{\beta}_i$ for each stock and compute **abnormal returns**

$$AR_{it} = R_{it} - \hat{R}_{it} = R_{it} - [\hat{\alpha}_i + \hat{\beta}_i R_{mt}] \quad (2)$$

- **Cumulative abnormal return** for firm i is the sum from day 0 through n

$$CAR[0, n]_i = \sum_{t=0}^n AR_{it} \quad (3)$$

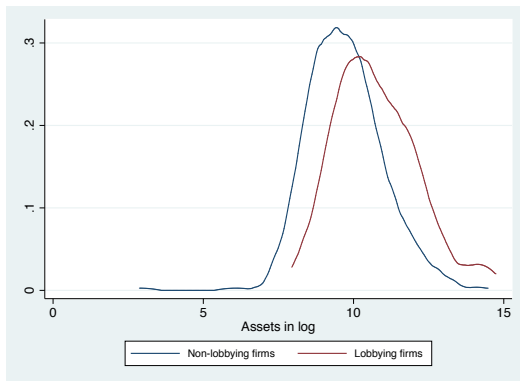
Lobbying firms in the S&P 500

- Recent studies have shown that lobbying firms are larger than non-lobbying firms (Bombardini, 2008; Blanga-Gubbay *et. al*, 2018)
- In order to have more homogeneous treatment and control groups, we restrict our analysis only to S&P 500 firms

Lobbying on TPP	S&P 500	
	No	Yes
No	1923	402
Yes	34	108
Total	1957	510

Lobbying firms in the S&P 500

- Even within our sample group, S&P 500, lobbying firms are larger than non-lobbying firms



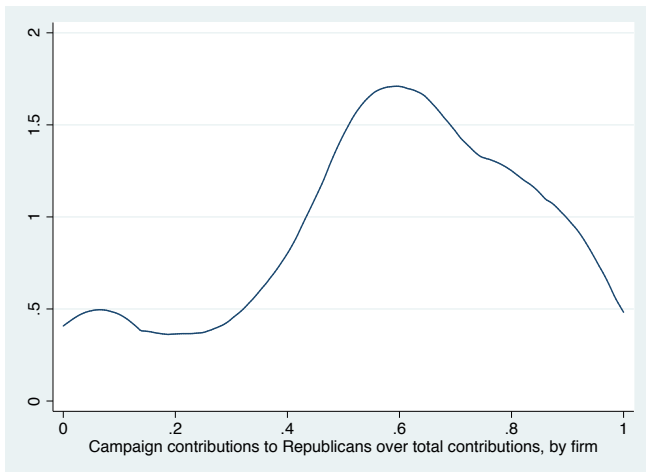
- We control for additional firms' characteristics such as assets and revenues

S&P 500	Pro-TPP	Control	Diff	P-value
Employees	98,306.44	39,343.05	58,963.39	0.00
Net Sales	35,934,040	15,282,140	20,651,900	0.00
Total Assets	151,707.90	45,445.61	106,262.30	0.00
Revenues	10,508.48	4,026.46	6,482.01	0.00
Money to Republicans	375,026.90	168,752.10	206,274.8	0.00

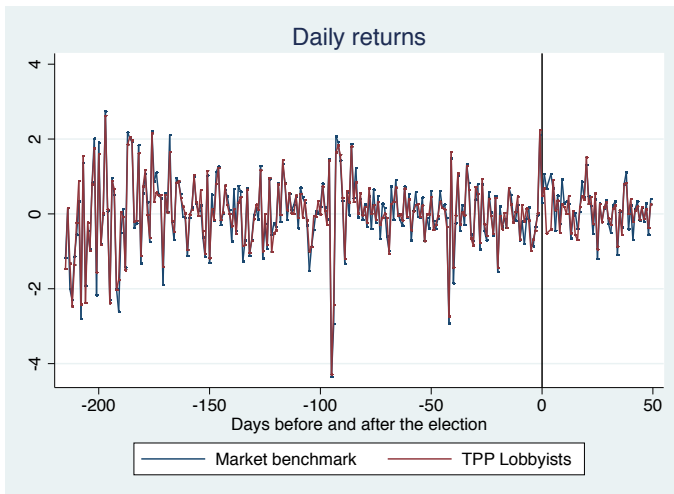
Korus	Pro-TPP	Control	Diff	P-value
Employees	97,962.52	113,422.5	-15,459.98	0.6952
Net Sales	46,135,820	47,118,460	-982,638.7	0.9585
Total Assets	165,401.8	181,261.4	-15,859.6	0.8857
Revenues	11,087.41	8,592.11	2,495.29	0.5289
Money to Republicans	469,941.1	588,092.1	- 118,151	0.5184

◀ Back

- Firms tend to pay campaign contributions to both parties
- On average firms pay more campaign contributions to Republicans



U.S. Stock Prices around November 8, 2016



The negative impact on lobbying firms seems to last for **four consecutive days**

Daily returns of S&P 500 firms

	Nov. 7	Election Day	Nov. 9	Nov. 10	Nov. 11	Nov. 14	Nov. 15	Nov. 16
Pro TPP	0.112 (0.1402)	-0.036 (0.1130)	-0.366* (0.2109)	-0.846** (0.4058)	-0.417** (0.1698)	-0.738** (0.3219)	0.271 (0.1796)	0.336** (0.1511)
Pro Republicans	-0.233 (0.1659)	0.290* (0.1579)	1.582*** (0.5316)	0.682** (0.3309)	-0.284 (0.3290)	-0.140 (0.3009)	0.201 (0.2327)	-0.271* (0.1541)
SIC 2 Digit FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	470	470	470	470	470	470	470	470
R ²	0.167	0.306	0.428	0.387	0.261	0.387	0.370	0.355

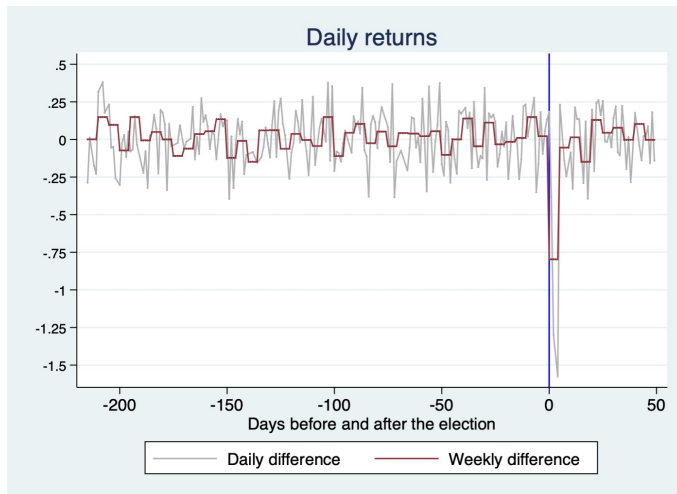
The negative impact on lobbying firms seems to last for **four consecutive days**

Daily returns of S&P 500 firms

	Nov. 7	Election Day	Nov. 9	Nov. 10	Nov. 11	Nov. 14	Nov. 15	Nov. 16
Expenditure on TPP	0.005 (0.0075)	0.001 (0.0102)	-0.022* (0.0128)	-0.059** (0.0289)	-0.029** (0.0111)	-0.058** (0.0220)	0.023* (0.0119)	0.021** (0.0091)
Money to Republicans	-0.000** (0.0002)	-0.000 (0.0002)	0.002** (0.0010)	0.002*** (0.0006)	-0.000 (0.0004)	0.000 (0.0006)	-0.001** (0.0005)	-0.001** (0.0002)
SIC 2 Digit FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	475	475	475	475	475	475	475	475
R ²	0.297	0.405	0.384	0.248	0.389	0.368	0.342	

Difference in Differences: Common Trend

Differences in Stock Prices: Market benchmark vs. TPP lobbyists



Lobbying firms display **negative returns** following the election

The result holds also **within sectors**:

	(1) All Sectors	(2) Finance	(3) Manufacturing	(4) Services	(5) Wholesale / Retail
T	0.149*** (0.0376)	0.697*** (0.0502)	0.531*** (0.0165)	0.858** (0.0749)	0.271*** (0.0568)
Pro TPP	-0.049 (0.0461)	0.014 (0.0134)	-0.050 (0.0400)	-0.046 (0.0365)	0.127 (0.0927)
Pro TPP*T	-0.622** (0.2553)	0.727 (0.7397)	-0.564** (0.2206)	-0.466* (0.1975)	-1.264* (0.6736)
Sample	S&P 500	S&P 500	S&P 500	S&P 500	S&P 500
Fixed Effects	Firm + Day	Firm + Day	Firm + Day	Firm + Day	Firm + Day
S.E. cluster	SIC 1d	SIC 1d	SIC 1d	SIC 1d	SIC 1d
N	107823	20447	40735	12981	11220
R ²	0.255	0.417	0.275	0.335	0.268

Lobbying firms display **negative returns** following the election

The result holds also **within sectors**:

	(1) All Sectors	(2) Finance	(3) Manufacturing	(4) Services	(5) Wholesale / Retail
T	0.143*** (0.0375)	0.693*** (0.0505)	0.524*** (0.0161)	0.860** (0.0748)	0.285*** (0.0565)
ExpenditureTPP	-0.004 (0.0032)	0.001 (0.0009)	-0.004 (0.0029)	-0.003 (0.0022)	0.009 (0.0081)
ExpenditureTPP*T	-0.043** (0.0180)	0.053 (0.0495)	-0.040** (0.0174)	-0.034** (0.0137)	-0.095* (0.0464)
Sample	S&P 500	S&P 500	S&P 500	S&P 500	S&P 500
Fixed Effects	Firm + Day	Firm + Day	Firm + Day	Firm + Day	Firm + Day
S.E. cluster	SIC 1d	SIC 1d	SIC 1d	SIC 1d	SIC 1d
N	107823	20447	40735	12981	11220
R ²	0.255	0.417	0.275	0.335	0.268

$$R_{i,t} = \alpha_i + \tau_t + \beta_1 \text{Lobby}_i + \beta_2 \text{Contributions}_i + \gamma \text{Election}_t + \\ + \delta_1 \text{Lobby}_i * \text{Election}_t + \delta_2 \text{Contributions}_i * \text{Election}_t + \varepsilon_{i,t}$$

- The treatment Lobby_i is measured as:
 - ① ProTPP_i : an indicator equal to 1 if firm i lobbied in favor of the agreement
 - ② ExpenditureTPP_i : the \$ amount of lobbying expenditure of firm i on TPP
- The treatment Contributions_i is measured as:
 - ① ProRepublicans_i : an indicator equal to 1 if firm i paid more campaign contributions to Republicans
 - ② MoneytoRep_i : the \$ amount of campaign contributions that firm i paid to Republicans
- Election_t is an indicator equal to 1 for $t > \text{Nov.8}$
- α_i and τ_t are respectively firm and time fixed effects

Difference in Differences: with campaign contributions

Lobbying firms display **negative returns** following the election

	(1) Daily returns	(2) Daily returns	(3) Daily returns	(4) Daily returns
T	0.781*** (0.0348)	0.444 (0.0742)	0.452* (0.0631)	0.770 (1.1965)
Pro TPP	-0.023 (0.0493)	0.042 (0.0452)		
Pro TPP*T	-0.660** (0.2708)	-0.580* (0.2459)		
Pro Republicans	-0.036 (0.0537)	0.014 (0.0521)		
Pro Republicans*T	0.548* (0.2924)	0.696* (0.2847)		
ExpenditureTPP			-0.001 (0.0043)	0.014 (0.0171)
ExpenditureTPP*T			-0.053** (0.0206)	-0.046** (0.0159)
Money to Rep.			-0.007 (0.0112)	0.071 (0.0617)
Money to Rep.*T			0.068* (0.0276)	0.232* (0.0947)
Sample	S&P 500	KORUS	S&P 500	KORUS
Fixed Effects	Firm + Day	Firm + Day	Firm + Day	Firm + Day
S.E. cluster	SIC 1d	SIC 1d	SIC 1d	SIC 1d
N	102901	11139	104001	11359
R ²	0.258	0.374	0.257	0.377

True (foregone) profits from TPP

We interact treatment $Lobby_i$ with shock to probability ΔP_t that TPP will **not** be ratified

$$R_{it} = \sum_{t>0}^T \delta_{it} Day_t * Lobby_i * \Delta P_t + \alpha_i + \tau_t + \varepsilon_{it}$$

where we use empirical \hat{p} of candidates to win from polls and policy stance from $TN(\mu, \sigma)$

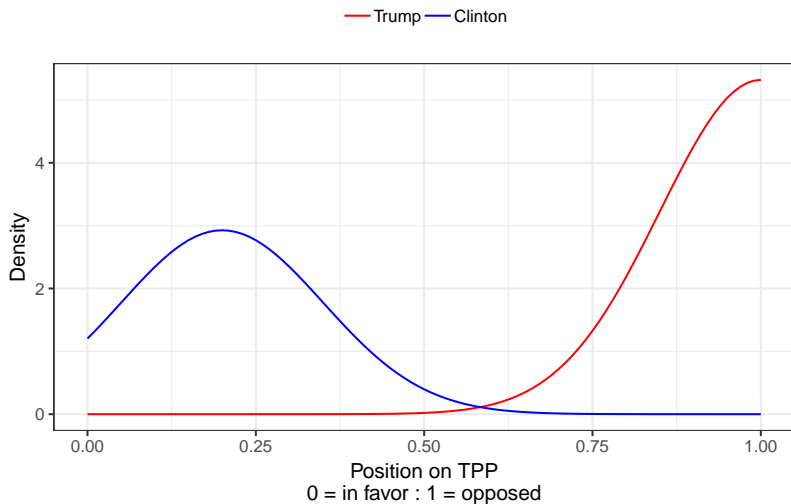
$$\Delta P_t = \underbrace{\mu_T}_{P \text{ in } t > 0} - \underbrace{(\hat{p}_T * \mu_T + \hat{p}_C * \mu_C)}_{P \text{ in } t < 0}$$

- Investors hedged against risk
 - from Donald Trump's possible victory $\hat{p}_T \approx 11\%$
 - Hillary Clinton's uncertain stance on TPP $\mu_C > 0$

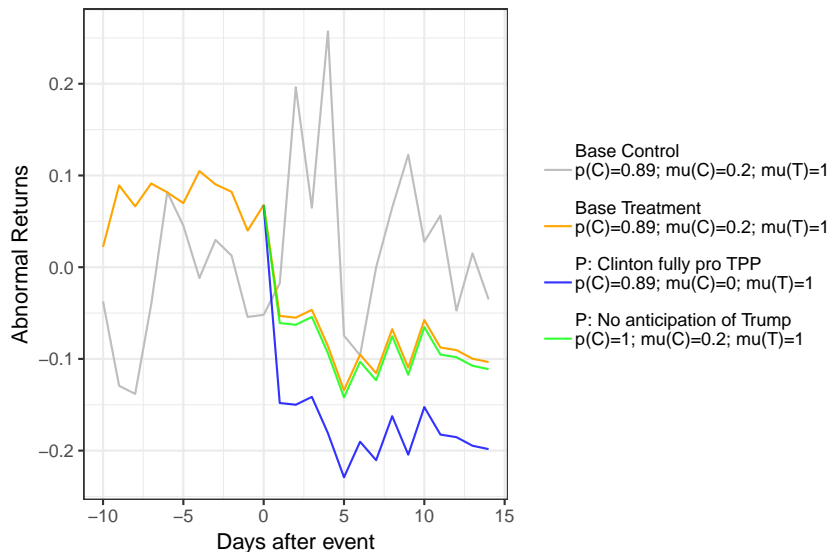
→ Predict **true profits** with $\{\widehat{\Delta P_t^{base}}, \widehat{\Delta P_t^{scen}}\}$

Policy Stance

“You called it the gold standard of trade deals. You said it’s the finest deal you’ve ever seen.” (D. Trump, First Presidential Debate - Sept. 26, 2016)



True (Foregone) Profits



Withdrawal from TPP

- On January 23, Trump issued a presidential memorandum for the United States to withdraw from the Trans-Pacific Partnership negotiations and agreement
- We want to see if this event had an impact on the returns of lobbying firms, or if the effect was already anticipated and internalized following the elections
- In line with the efficient market hypothesis, we find **no impact on the day of the actual withdrawal**

In line with the efficient market hypothesis, there is **no impact on the day of the actual withdrawal**

Daily returns of firms, by sector

	(1) All Sectors	(2) Finance	(3) Manufacturing	(4) Services	(5) Wholesale and Retail
T (Jan. 23)	0.088 (0.1120)	-0.049 (0.1793)	0.259 (0.1597)	-0.272 (0.3652)	0.402 (0.4628)
T*Lobbying	-0.065 (0.1415)	0.237 (0.2833)	0.156 (0.1772)	-0.704 (0.6170)	-0.603 (0.7592)
T*Republican	0.168 (0.1290)	0.104 (0.2072)	-0.212 (0.1869)	0.738 (0.4812)	0.623 (0.5560)
Firm FE	Yes	Yes	Yes	Yes	Yes
N	3728	720	1360	472	376
R ²	0.148	0.095	0.111	0.049	0.236

Daily returns of S&P 500 firms

	Jan. 20	Withdrawal	Jan. 24	Jan. 25	Jan. 26	Jan. 27	Jan. 30
Lobbying	-0.086 (0.1238)	0.213 (0.2311)	0.005 (0.1575)	0.300 (0.1914)	-0.011 (0.2725)	-0.056 (0.1807)	-0.295 (0.2174)
Pro Republicans	0.037 (0.1165)	-0.204 (0.2174)	-0.071 (0.1481)	-0.414** (0.1801)	0.310 (0.2564)	0.056 (0.1700)	0.421** (0.2045)
SIC 2 Digit FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	464	464	464	464	464	464	464
R ²	0.119	0.276	0.232	0.220	0.177	0.155	0.127

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Thank you!

More information about my research
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