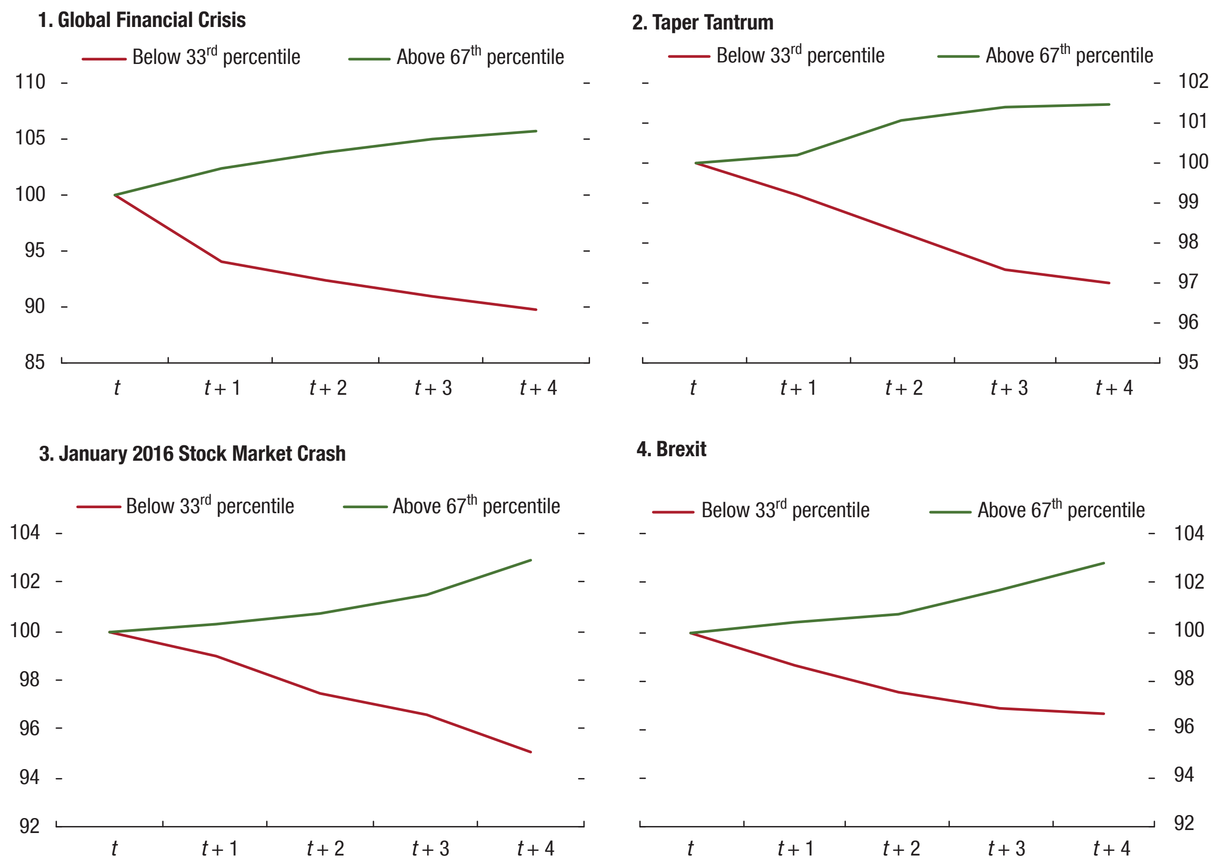
Figure 3.13. Event Study: Firm-Level Governance and Equity Returns
(Index; t = 100)

In response to external shocks, stock prices of firms with weaker governance fared much worse than firms with better governance.



Sources: Bloomberg L.P.; Thomson Reuters Datastream; and IMF staff calculations.
Note: Indices were constructed using firm equity returns adjusted for the market return (adjusted returns are residuals from a capital asset pricing model). The *y*-axis shows the equity market index, where 100 corresponds to the index one trading day before the event. Below 33rd percentile denotes firms in the bottom tertile of the firm-level governance index (overall index); above 67th percentile denotes firms in the top tertile of the firm-level governance index. *t* (time) = the day before the event; *t* + 1 = day of the event. The day of the event (*t* + 1) = September 15, 2008, in panel 1; May 22, 2013, in panel 2; January 6, 2016, in panel 3; and June 24, 2016, in panel 4. Brexit = June 2016 U.K. referendum result in favor of leaving the European Union.