

Description for the general public

Ties between politicians and firms exist in all economies around the world. They are present both in mature and developing economies. The knowledge gathered so far by academicians suggest that political connections significantly impact firms' behavior and performance. For example, several authors note the political considerations affect bank lending decisions, have impact on firms' market value, determine the chance of firms being rescued from distress or co-decide about the shape of regulations. As a consequence, political connections may be qualified, on the one hand, as ubiquitous and, on the other hand, as very important from an economic point of view.

Despite the sizeable economic role of political connections, little is known about the determinants of the value of political connections, especially in the international context. In this research project, we seek to eliminate this gap in the current economic knowledge. We designed three types of separate but mutually complementary analyses. First, we will look at the market reactions to positive and negative changes in credit ratings for politically connected firms and their unconnected competitors operating in advanced emerging economies. Second, using a sample from a single economy, we will study what happens to firms when their creators or managers enter politics. Finally, we will examine how different factors modify the value of political connections for large banks worldwide.

We conjecture that the outcomes of our research project will be interesting not only for academicians, legislators, regulators and supervisors but also for the general public.