

Corruption and Stock Price Volatility: Firm-Level Evidence

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Area: Economics & Social Sciences, Public Policy

Date: 12.07.2019, Venue: K11 @ 2.30PM

Abstract

This paper assesses the effects of corruption on firm-level equity price volatility using a sample of over 3,000 firms from 31 countries around the world over the period of 2003–2014. We find that corruption, constructed using the responses from the World Bank Enterprise Survey to match the firm's size, industry, location, and country, is positively associated with equity price volatility. We further find that equity price volatility decreases with the asset size in the presence of corruption, indicating that smaller firms are disproportionately affected by corruption. We also find evidence of a positive association between corruption measured at the country level and stock price volatility, however, the effect of country-level corruption is found to be worse for firms with larger asset sizes.

Speaker Profile

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