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The Fall of Baghdad and the Capital Markets Reaction:
Empirical Evidence from Selected Arab Stock Exchanges

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English Abstract

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Considering the worldwide political and economic significance of the Baghdad Fall event, the purpose of this thesis is to empirically examine the short-term effect of the Baghdad Fall event over the Arab Stock Exchange. The thesis uses the standard event study methodology to measure the sample markets abnormal performance.

Markets’ daily indices data for the period spanning from 2002/8/6 to 19/5/2003 were tested through two approaches: across time and cross sectionally employing the cumulative abnormal returns and the cumulative average abnormal returns methods. The study finds that the Fall of Baghdad was associated with statistically significant abnormal returns. The positive impact of socio-political shock can be attributed mainly to the retreating of the political uncertainty which was enveloping the Arab World along many years preceding the event. The event makes an extraordinary opportunity to test the efficiency of the sample indices; the study finds that the markets' behaviors violate the
core of the EMH. However, the behavior of ASE's showed the highest consistency with the EMH when compared with other markets.

Key Words: Arab Stock Exchanges, Amman Stock Exchange, Baghdad Fall, Event Studies, Market Efficiency, Political Uncertainty, War against Iraq, Abnormal returns.