Policy Opacity
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Equilibrium, continued

The implemented policy becomes browsier in expectation and expected cash flows are higher. The signal becomes less informative, increasing uncertainty and the value of option protection.

Empirics
I use the following as empirical analogs for the objects in the model:
1. Implied volatility of industry options and return volatility as proxies for uncertainty about \( \theta \).
2. Polling data from Pew and Gallup to quantify support for policies to address climate change.
3. Using articles on the Dow Jones Newswires, I record days on which there were climate change-related policy announcements.

I test the model using an event study and estimate regressions of the form:

\[
\Delta Y_i(t) = \alpha_0 + \beta_1 (\text{Announcement}) + \beta_2 (\text{Announcement} \times \text{Support for Environmentalism}) + \beta_3 (\text{Announcement} \times \text{Support for Environmentalism} \times \text{Green Party in Power} \times \text{Controls}) + \epsilon_i
\]

Announcement x Support for Environmentalism 0.0004 (-0.094) -0.0001 -0.0008 0.0000 (-3.105) 0.0006 0.0004 0.0000 0.0004 0.0000
Announcement x Green Party in Power 0.0013 0.0030 0.0085 0.0009 0.0002 (-1.223) 0.0030 0.0021 0.0013 0.0009 0.0002
Announcement x Time by Month 0.0006 0.0000 0.0000 0.0000 0.0000 0.0000 0.0000 0.0000 0.0000 0.0000
Announcement x Single Party Control 0.0004 (-0.094) 0.0006 0.0006 0.0006 0.0004 (-3.105) 0.0006 0.0004 0.0004 0.0004 0.0004

For \( \theta \), the following results are significant:

- \( \beta_1 \): Announcements affect support for environmentalism.
- \( \beta_2 \): The interaction term shows a significant effect.
- \( \beta_3 \): The triple interaction term is also significant.

Conclusion
Political agency affects financial markets. The value of option protection and other proxies for uncertainty are higher after policy announcements from governments that have preferences different from that of their constituents. These results highlight the importance of political feasibility in policy responses to climate protection.