

A. Internet Appendix

Not to be published

TABLE A1
Variable Definitions

This table provides the definition of the variables used in this paper.

Variables	Definitions
CAR_K	for $K = \{1, 5, 10\}$, is the K-day cumulative abnormal returns after November 8, 2016. I use 252-day estimation window that ends 30-day before November 8, 2016. Abnormal returns are calculated using Fama-French Fama and French (2015) five factor model and momentum.
QUTILE_N	for $N = [1, 4]$, is a dummy variable indicating the NAICS three-digit based regulatory restriction quartile which a firm belongs to. Regulatory restriction for a NAICS 3-digit industry is provided by the RegData project (Al-Ubaydli and McLaughlin (2017))
Log(TOTAL_ASSETS)	Natural logarithm of book assets of the firm based on the 2015 fiscal year.
Log(MARKET_CAP)	Natural logarithm of market capitalization of stocks at the beginning of the event window.
DEBT_TO_EQUITY	Debt-equity ratio of firms calculated using the 2015 fiscal year financial statements.
EXPECTED_CASH_TAX_RATE	Expected (one or ten year) cash tax rate of a firm based on 2015 fiscal year financial statements following Wagner et al. (2018a).
GOVT_EXPOSURE	Dummy variable indicating NAICS 3-digit industries with greater than median exposure to government spending calculated following Belo et al. (2013)
IMPORT_DEPENDENT	Dummy variable indicating NAICS 3-digit industries that are import dependent using data from United States International Trade Commission (USITC)
MISS_TAX_RATE	Indicates firms for which tax rate could not be computed for 2015.
FOREIGN_SALE	Total pollution of the firm in 2015 scaled by the market capitalization of the firm
CLIMATE_RESPONSIBLE	Net climate responsibility score calculated using KLD database by subtracting environmental concerns from environmental strengths. The scores are from Ramelli et al. (2019)
TEXT_BASED_HHI	Text based industry concentration as provided by Hoberg and Phillips (2016).
ILLIQUIDITY	Average Amihud illiquidity measure (Amihud (2002)) during the event window.
POLITICAL_CONNECTION	Dummy variable taking the value of one if the firm has lobbied and/or made contributions to the Republican political candidates and/or any individuals of the the firm donated to the Trump campaign.
REPUBLICAN	Dummy variable indicating if a US state has greater than the median proportion of Republican members of Congress as of November 9, 2016 where the firm is incorporated.
TOBINS_Q	Ratio of total assets plus market value of equity minus common equity minus deferred tax liability to total assets.
EBIT	Earnings before interest and taxes scaled by revenues.
CASH_FLOW	Earnings before interest and taxes plus depreciation and amortization scaled by revenues.
SALES_GROWTH	Annual percentage change in sales.
Log(SALES)	Natural logarithm of sales.

TABLE A2

Economically Significant Rules under Donald Trump's Presidency

This table investigates if the number of economically significant rules passed during the years of Donald Trump's presidency is statistically significantly lower than other presidential years. The dependent variable is the natural logarithm of one plus the number of economically significant rules passed during a given year ($\text{Log}(\text{RULES})$). TRUMP_PRESIDENCY is a dummy variable that takes the value of one for the years 2017-2019 and zero, otherwise. The control variables are annual GDP growth rate (GDP_GROWTH_RATE), annual unemployment rate (UNEMPLOYMENT_RATE) and a dummy indicating years with Republican presidencies ($\text{REPUBLICAN_PRESIDENCY}$). The sample period is 1981-2019. The data comes from the Regulatory Studies Center of the George Washington University. Newey-West t -statistics are in parenthesis. The first (last) two columns are with Newey-West correction of standard errors assuming a lag of one (two) year(s). *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels respectively.

	Log(RULES)	Log(RULES)	Log(RULES)	Log(RULES)
TRUMP_PRESIDENCY	-0.603** (-2.60)	-0.479* (-1.84)	-0.603*** (-3.00)	-0.479** (-2.11)
GDP_GROWTH_RATE	-0.188*** (-3.47)	-0.173*** (-2.92)	-0.188*** (-4.17)	-0.173*** (-3.44)
UNEMPLOYMENT_RATE	-0.160** (-2.37)	-0.149** (-2.17)	-0.160** (-2.55)	-0.149** (-2.35)
REPUBLICAN_PRESIDENCY		-0.192 (-1.40)		-0.192 (-1.57)
N	39	39	39	39

TABLE A3

Robustness Test – Continuous Measure of Regulatory Restrictions

This table investigates if the results of Table 3 is robust to excluding firms in the finance and utilities industries. The dependent variable is CAR_K , where $K = \{1, 5, 10\}$, is the K-day cumulative abnormal returns after November 8, 2016. $\text{Log}(\text{REG_RESTRICTIONS})$ is the natural logarithm of the total regulatory restrictions for each NAICS 3-digit industry in 2015 as calculated by Al-Ubaydli and McLaughlin (2017). Other variables are defined in Table A.1 in the Appendix. All non-logarithmic continuous variables are winsorized at 1 and 99 percentiles. N presents number of firms in the regression. The regressions are with 2-digit NAICS industry fixed effects and state fixed effects. Standard errors are clustered at 2-digit NAICS level. t -statistics are in parenthesis. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels respectively.

	CAR_01	CAR_05	CAR_10
Log(REG_RESTRICTIONS)	0.006*** (4.37)	0.011*** (3.01)	0.009** (2.02)
ILLIQUIDITY	-0.227** (-2.51)	-0.232 (-1.25)	-0.238 (-0.93)
Log(MARKET_CAP)	0.004 (1.53)	0.004 (0.91)	-0.002 (-0.66)
Log(TOTAL_ASSETS)	-0.004 (-1.40)	-0.007 (-1.33)	-0.003 (-0.77)
DEBT_TO_EQUITY	-0.000 (-0.29)	-0.000 (-0.45)	-0.001 (-0.77)
EXPECTED_CASH_TAX_RATE	0.013* (1.79)	0.021** (2.32)	0.013 (1.33)
MISS_TAX_RATE	0.002 (0.48)	0.004 (0.50)	0.014 (1.38)
GOVT_EXPOSURE	0.004 (1.03)	-0.001 (-0.11)	-0.005 (-1.33)
IMPORT_DEPENDENT	-0.113** (-2.31)	-0.124 (-1.18)	-0.064 (-0.70)
POLITICAL_CONNECTION	0.003 (0.22)	0.012 (0.42)	-0.014 (-0.48)
Log(REG_RESTRICTIONS)×POLITICAL_CONNECTION	-0.005 (-1.00)	-0.005 (-0.72)	-0.001 (-0.10)
R ²	0.11	0.13	0.09
N	2,413	2,413	2,413
IndustryFE	Y	Y	Y
StateFE	Y	Y	Y

TABLE A4

Robustness Test – Controlling for Foreign Operations

This table investigates if the main results reported in Table 3 is robust to controlling for foreign operations of firms. The dependent variable is CAR_K , where $K = \{1, 5, 10\}$, is the K-day cumulative abnormal returns after November 8, 2016. $QUTILE_N$ is a dummy variable indicating the quartile of regulated industry for each firm, with quartile one ($QUTILE_1$) indicating the least and quartile four ($QUTILE_4$) indicating the most regulated industries. In the regressions $QUTILE_1$ is the reference category. Variables are defined in Table A.1 in the Appendix. All non-logarithmic continuous variables are winsorized at 1 and 99 percentiles. N presents number of firms in the regression. The regressions are with 2-digit NAICS industry fixed effects and state fixed effects. Standard errors are clustered at 2-digit NAICS level. t -statistics are in parenthesis. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels respectively.

	CAR_01	CAR_05	CAR_10
QUTILE_2	0.013** (2.44)	0.015 (1.07)	0.013 (1.07)
QUTILE_3	0.018*** (2.97)	0.029** (2.83)	0.024* (2.07)
QUTILE_4	0.021*** (4.28)	0.043*** (2.96)	0.037** (2.56)
ILLIQUIDITY	-0.224** (-2.35)	-0.233 (-1.36)	-0.236 (-0.96)
Log(MARKET_CAP)	0.003 (1.38)	0.003 (0.78)	-0.003 (-0.91)
Log(TOTAL_ASSETS)	-0.003 (-1.16)	-0.006 (-1.11)	-0.002 (-0.51)
DEBT_TO_EQUITY	-0.000 (-0.23)	-0.000 (-0.45)	-0.001 (-0.80)
EXPECTED_CASH_TAX_RATE	0.015* (1.90)	0.023** (2.53)	0.016 (1.47)
MISS_TAX_RATE	0.001 (0.40)	0.003 (0.37)	0.013 (1.28)
GOVT_EXPOSURE	-0.000 (-0.04)	-0.005 (-0.56)	-0.007 (-1.09)
IMPORT_DEPENDENT	-0.016*** (-4.59)	-0.021** (-2.37)	-0.016 (-1.73)
FOREIGN_SALE	-0.012 (-1.63)	-0.047*** (-3.80)	-0.055*** (-4.44)
POLITICAL_CONNECTION	0.003 (0.89)	0.004 (0.74)	-0.001 (-0.20)
QUTILE_2×POLITICAL_CONNECTION	-0.004 (-0.94)	-0.007 (-0.93)	-0.003 (-0.35)
QUTILE_3×POLITICAL_CONNECTION	-0.010 (-1.51)	-0.008 (-0.87)	-0.007 (-0.57)
QUTILE_4×POLITICAL_CONNECTION	-0.002 (-0.60)	-0.008 (-0.98)	-0.002 (-0.26)
R ²	0.11	0.13	0.10
N	2,413	2,413	2,413
IndustryFE	Y	Y	Y
StateFE	Y	Y	Y

TABLE A5

Robustness Test – Controlling for Responsible Climate Strategy

This table investigates if the main results reported in Table 3 is robust to controlling for responsible climate strategies of firms as of 2015. The dependent variable is CAR_K , where $K = \{1, 5, 10\}$, is the K-day cumulative abnormal returns after November 8, 2016. $QUTILE_N$ is a dummy variable indicating the quartile of regulated industry for each firm, with quartile one (QUTILE.1) indicating the least and quartile four (QUTILE.4) indicating the most regulated industries. In the regressions QUTILE.1 is the reference category. CLIMATE_RESPONSIBLE is a dummy variable defined after subtracting environmental concerns from environmental strengths as reported by the MSCI KLD database. The data comes from Ramelli et al. (2019). Variables are defined in Table A.1 in the Appendix. All non-logarithmic continuous variables are winsorized at 1 and 99 percentiles. N presents number of firms in the regression. The regressions are with 2-digit NAICS industry fixed effects and state fixed effects. Standard errors are clustered at 2-digit NAICS level. t -statistics are in parenthesis. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels respectively.

QUTILE_2	0.021*** (3.36)	0.028* (1.82)	0.023* (1.96)
QUTILE_3	0.023*** (3.77)	0.038*** (3.25)	0.025** (2.34)
QUTILE_4	0.030*** (5.47)	0.061*** (3.68)	0.047** (2.79)
CLIMATE_RESPONSIBLE	0.001 (0.25)	0.003 (0.36)	-0.000 (-0.01)
ILLIQUIDITY	-1.747 (-0.13)	-60.006*** (-3.31)	-74.124*** (-3.32)
Log(MARKET_CAP)	0.003 (0.81)	0.009 (1.67)	0.005 (1.39)
Log(TOTAL_ASSETS)	-0.003 (-0.90)	-0.008 (-1.24)	-0.004 (-0.97)
DEBT_TO_EQUITY	-0.000 (-0.73)	0.000 (0.36)	-0.000 (-0.22)
EXPECTED_CASH_TAX_RATE	0.018 (1.46)	0.037* (2.02)	0.024 (1.62)
MISS_TAX_RATE	0.006 (1.15)	0.018 (1.68)	0.026* (2.08)
GOVT_EXPOSURE	-0.006 (-0.91)	-0.014 (-1.22)	-0.022** (-2.27)
IMPORT_DEPENDENT	-0.018*** (-3.97)	-0.018* (-2.07)	-0.005 (-0.70)
POLITICAL_CONNECTION	0.006** (2.85)	0.006 (1.25)	-0.003 (-0.57)
QUTILE_2×POLITICAL_CONNECTION	-0.006* (-1.78)	-0.007 (-0.76)	0.002 (0.19)
QUTILE_3×POLITICAL_CONNECTION	-0.010 (-1.15)	-0.011 (-0.61)	0.000 (0.01)
QUTILE_4×POLITICAL_CONNECTION	-0.005 (-1.69)	-0.019* (-1.87)	-0.007 (-0.76)
R ²	0.18	0.19	0.13
N	1,419	1,419	1,419
IndustryFE	Y	Y	Y
StateFE	Y	Y	Y

TABLE A6

Robustness Test – Mechanisms

This table investigates the robustness of the results discussing the economic mechanisms through which investors expected possible de-regulation under Donald Trump's presidency to impact firm value. The abnormal return is the abnormal return calculated from a one factor model where the factor is the value-weighted return of all stocks from the Compustat universe, excluding the US. The table presents the result of regressing 5-day CARs on the independent variables. For brevity, I document only the coefficients of interest. QUTILE.N is a dummy variable indicating the quartile of regulated industry for each firm, with quartile one (QUTILE.1) indicating the least and quartile four (QUTILE.4) indicating the most regulated industries. In the regressions QUTILE.1 is the reference category. In columns (1)-(3), I document if abnormal stock returns are higher for firms in the most regulated industries *and* for firms with higher *growth opportunities* (TOBINS.Q), facing higher *competition* (TEXT.BASED.HHI) and are not expected to receive *political favoritism* (REPUBLICAN), respectively. All non-logarithmic continuous variables are winsorized at 1 and 99 percentiles. *N* presents number of firms in the regression. The regressions are with 2-digit NAICS industry fixed effects and state fixed effects. Standard errors are clustered at 2-digit NAICS level. *t*-statistics are in parenthesis. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels respectively.

	<i>Growth Opportunities</i>	<i>Competition</i>	<i>Political Favoritism</i>
QUTILE.2	0.026 (1.10)	0.035 (1.55)	0.058 (0.97)
QUTILE.3	0.012 (0.79)	0.029** (2.47)	0.041 (1.63)
QUTILE.4	0.025* (1.99)	0.061*** (3.63)	0.92*** (2.98)
TOBINS.Q	0.004** (2.88)		
QUTILE.2×TOBINS.Q	0.003 (0.55)		
QUTILE.3×TOBINS.Q	0.002 (0.33)		
QUTILE.4×TOBINS.Q	0.009*** (3.25)		
TEXT.BASED.HHI		0.005 (0.43)	
QUTILE.2×TEXT.BASED.HHI		-0.009 (-0.43)	
QUTILE.3×TEXT.BASED.HHI		-0.028 (-1.63)	
QUTILE.4×TEXT.BASED.HHI		-0.083*** (-2.95)	
REPUBLICAN			0.037*** (3.91)
QUTILE.2×REPUBLICAN			-0.029 (-1.31)
QUTILE.3×REPUBLICAN			-0.022 (-1.53)
QUTILE.4×REPUBLICAN			-0.045*** (-2.97)
R ²	0.17	0.17	0.14
N	2,270	2,303	2,413
<i>Other Controls</i>	Y	Y	Y
<i>Industry FE</i>	Y	Y	Y
<i>State FE</i>	Y	Y	Y

TABLE A7

Real Effects – Additional Evidence

This table investigates if firm fundamentals changed over the three years after 2016 in accordance with the stock price reaction around the election day compared with three years before the election. The dependent variables in columns (1) - (4) are EBIT, CASH_FLOW, natural logarithm of sales (Log(SALES)) and SALES_GROWTH, respectively. EBIT is earnings before interest and taxes, CASH_FLOW is EBIT with depreciation and amortization added back and SALES is the revenue of a firm. QUTILE_N is a dummy variable indicating the quartile of regulated industry for each firm, with quartile one (QUTILE_1) indicating the least and quartile four (QUTILE_4) indicating the most regulated industries. In the regressions QUTILE_1 is the reference category. Panel A, B and C investigates real effects based on regulation and growth opportunities (as measured by Tobin's Q as of 2015), text based measure of competition from Hoberg and Phillips (2016) (as of 2015) and a dummy variable (REPUBLICAN) indicating whether a state has greater than median Republican Members of Congress as of the 2016 election day, respectively. The regressions also control for logarithm of firm assets, expected tax rates and debt-equity ratio as time-varying firm-level controls. The regressions are estimated on a sample period between 2014 and 2019. POST is a dummy variable taking the value of 1 for the years 2017–2019 and zero, otherwise. All variables are defined in Table A.1 in the Appendix. All non-logarithmic continuous variables are winsorized at 1 and 99 percentiles. *N* presents number of firms in the regression. The regressions are with 2-digit NAICS industry \times year fixed effects and firm fixed effects. Standard errors are clustered at the firm and state level. *t*-statistics are in parenthesis. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels respectively.

	EBIT	CASH_FLOW	Log(SALES)	SALES_GROWTH
Panel A: Real Effects Based on Growth Opportunities				
QUTILE_2×POST	0.053 (1.53)	0.074 (0.18)	0.070 (1.39)	0.027 (0.94)
QUTILE_3×POST	-0.009 (-0.43)	-0.894 (-1.04)	-0.051 (-1.04)	-0.006 (-0.32)
QUTILE_4×POST	-0.013 (-0.57)	-0.863 (-0.94)	-0.018 (-0.23)	0.015 (0.84)
POST×TOBINS_Q	0.002 (0.41)	-0.111 (-0.57)	0.020* (1.94)	0.005 (1.33)
QUTILE_2×POST×TOBINS_Q	-0.017* (-1.80)	-0.264 (-1.34)	-0.020* (-1.96)	-0.013** (-2.21)
QUTILE_3×POST×TOBINS_Q	-0.005 (-0.58)	0.013 (0.02)	0.014 (0.44)	0.004 (0.76)
QUTILE_4×POST×TOBINS_Q	0.012*** (2.71)	0.711* (1.76)	0.065** (2.47)	0.017*** (2.74)

Table A7 Continued on next page...

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Panel B: Real Effects Based on Competition

QUTILE_2×POST	0.076** (2.44)	-0.512** (-2.12)	0.071 (1.09)	0.031 (1.49)
QUTILE_3×POST	-0.018 (-1.21)	0.266 (0.81)	0.045 (0.91)	-0.006 (-0.25)
QUTILE_4×POST	-0.003 (-0.15)	0.643* (1.95)	0.122*** (3.23)	0.039 (1.43)
POST×TEXT_BASED_HHI	-0.043*** (-2.97)	-0.578 (-0.97)	-0.121*** (-3.36)	-0.101** (-2.39)
QUTILE_2×POST×TEXT_BASED_HHI	-0.150*** (-4.19)	0.960 (1.56)	-0.080 (-0.81)	-0.062 (-0.94)
QUTILE_3×POST×TEXT_BASED_HHI	0.026 (0.77)	-2.074 (-1.15)	-0.121 (-0.74)	0.039 (0.57)
QUTILE_4×POST×TEXT_BASED_HHI	-0.002 (-0.06)	-1.578** (-2.07)	-0.134*** (-2.79)	0.032 (0.51)

Panel C: Real Effects Based on Political Favoritism

	EBIT	Cash flow	log(Sales)	Sales Growth
QUTILE_2×POST	-0.006 (-0.12)	-0.897** (-2.22)	0.001 (0.02)	-0.006 (-0.12)
QUTILE_3×POST	-0.068** (-2.08)	-1.166 (-1.43)	-0.066 (-0.96)	0.043 (0.84)
QUTILE_4×POST	0.002 (0.06)	1.058 (1.68)	0.251*** (5.11)	0.171*** (4.87)
POST×REPUBLICAN	-0.029 (-1.28)	-0.231 (-1.63)	-0.036 (-1.31)	0.000 (0.02)
QUTILE_2×POST×REPUBLICAN	0.024 (0.71)	0.605** (2.46)	0.033 (0.52)	0.012 (0.30)
QUTILE_3×POST×REPUBLICAN	0.046 (1.34)	0.528 (1.54)	0.048 (1.04)	-0.036 (-0.72)
QUTILE_4×POST×REPUBLICAN	-0.005 (-0.21)	-0.745** (-2.63)	-0.147*** (-3.59)	-0.107*** (-4.34)

For all Panels

N	10,576	10,392	11,122	11,590
<i>Other Controls</i>	Yes	Yes	Yes	Yes
<i>Firm FE</i>	Yes	Yes	Yes	Yes
<i>2-digit NAICS times Year FE</i>	Yes	Yes	Yes	Yes