

Julia Darby & Graeme Roy

University of Strathclyde

This paper investigates the extent to which companies headquartered in Scotland were exposed to heightened political uncertainty in the run-up to, and after, the 2014 independence referendum. Using a specially constructed capitalisation weighted stock price index for Scottish companies listed on the London stock exchange, evidence is presented to show that in the early part of the sample period, from April 2010 to late 2013, the conditional volatilities of the Scottish stock returns and of returns in the FTSE all share index can be characterised by the same GARCH parameters, but that this is no longer the case once estimation extends beyond mid December 2013. Further investigation shows that the relative volatility of Scottish companies peaked in early September 2014, when the polls suggested the referendum result was too close to call, fell back after the referendum result was known, but built up again in the run up to the publication of the Smith Commission's report on further devolution in November 2014. These key findings are found to be robust to the inclusion/exclusion of the Royal Bank of Scotland, the whole of the Scottish financial sector and companies operating in the oil and gas sector from the Scottish stock price index.

Keywords: Scottish Independence Referendum; stock market volatility; political uncertainty

Subject classification codes: C32; G10; G14.