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The Value of Political Connections after *Citizens United*

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## ABSTRACT

In this paper, I extend the existing research on corporate political connections to the post-*Citizens United* era, focusing on the relationship between a Corporate PAC's political contributions and its related firm's financial outcomes. I find that the value created by a firm's net gain in political connections has been effectively reduced to zero in the decade after the Supreme Court's ruling in *Citizens United v. FEC*. I measure the financial value of political connections in various ways, including daily stock returns, market-to-book ratios, investment spending, sales, total assets, debt, and SG&A expense. My results raise notable questions about how firms derive value from political connections in the post-*Citizens United* era.

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## INTRODUCTION

The landscape of campaign finance law and election spending was drastically altered on January 21, 2010 when the Supreme Court ruled that the existing prohibition on independent election expenditures by corporations was in violation of the First Amendment. This decision in *Citizens United v. Federal Election Commission* was a pivotal moment in a strand of campaign finance law tracing back to post-Watergate reforms.

The defendant in this landmark case, the Federal Election Commission (FEC), was created in the aftermath of the Watergate scandal by a 1974 amendment to the Federal Election Campaign Act (FECA). The new Commission's primary responsibility was to regulate campaign contributions and enforce disclosure requirements. In compliance with the FECA amendment and the subsequent Bipartisan Campaign Reform Act (2002), the FEC also enforced the prohibition of independent expenditures on elections by outside groups. Such banned independent expenditures were defined by the FEC as "expenditures for communications that expressly advocate for the election or defeat of a clearly identified candidate and which are not made in coordination with any candidate, or his or her authorized committees or agents, or a political party committee or its agents."

With this prohibition in place, traditional Political Action Committees (PACs) were for a long time the primary avenue through which corporations participated in the electoral process. Traditional PACs allow various types of organizations to contribute to candidates and influence elections. By law, PACs must be completely detached from their sponsoring organization's treasury. For example, a firm cannot use money from its corporate treasury to contribute to their Corporate PAC. The PAC can only solicit voluntary contributions from individuals, typically

members or employees of the sponsoring organization. This pooled fund can then be managed and dispersed to electoral candidates by the sponsoring organization's officers in compliance with the applicable contribution limits.

The *Citizens United* ruling in 2010 created new avenues of political involvement for various outside individuals and groups, including corporations, and disrupted the long-standing primacy of traditional PACs. In the now-famous case, the plaintiff Citizens United, a conservative non-profit group seeking to release a movie that sharply criticized then-primary candidate Hillary Clinton, sued the FEC after the Commission prevented the group from releasing their movie during the 2008 primary election. The FEC argued that the movie was an independent expenditure given its express advocacy against a political candidate and was thus prohibited by existing campaign finance law; however, the Supreme Court sided with Citizens United in a sweeping ruling that reversed the ban on independent expenditures and vastly expanded the ability of outside groups to spend money on election-related activities.

Ten years later, in a report released by the Center for Responsive Politics, Evers-Hillstrom (2020) finds that the decade following *Citizens United* was the most expensive in the history of U.S. federal elections. He cites that 9 of the 10 most expensive non-special House elections occurred in 2018 alone, and 8 of the 10 most expensive non-special Senate races occurred after 2010. He also notes that outside groups have spent around \$4.5 billion on elections in the past decade, relative to the \$750 million spent by these groups in the two decades prior to *Citizens United* (Evers-Hillstrom, 2020).

Although, this increased election spending since 2010 seems to have been primarily driven by individual donors rather than corporations. Evers-Hillstrom (2020) notes that the 10 most active

individual donors have spent a combined \$1.2 billion in the last decade. Corporations, in contrast, seem to have continued on with their pre-*Citizens United* political strategy of lobbying and contributing via traditional PACs, rather than via the newly legalized independent expenditures. As Evers-Hillstrom (2020) highlights, corporations account for less than 10% of the new independent election spending since *Citizens United*. Hansen, Rocca, and Ortiz (2015) similarly conclude that majority of new independent election spending is attributable to individuals and unions rather than to corporations. In their attempt to explain corporations' spending habits, Evers-Hillstrom (2020) and Hansen et al. (2015) speculate that corporations have been wary of utilizing these new modes on political spending because they fear the potential backlash from customers and shareholders.

Regardless of corporations' role in the upward trend, the amount of spending on elections has risen dramatically in the post-*Citizens United* era, fueled primarily by independent expenditures. Presumably, the new forms of election spending have had implications for the old forms of election spending. This paper attempts to understand how the new rules of campaign finance initiated by the Supreme Court's 2010 decision have affected the value of traditional forms of election spending, like campaign contributions via traditional PACs.

Discussed more fully in the "Literature Review" section, there is general consensus in the literature that political connections are financially valuable to corporations. Faccio (2006) finds that firms experience positive stock reactions after announcing a new officer or major shareholder that was previously a government official. Duchin and Sosyura (2011) similarly find that politically connected firms were more likely to receive funding through the Capital Purchase Program (CPP) during the 2008 financial crisis. With regards to Corporate PAC contributions,

Akey (2015) finds that firms experience positive financial outcomes after the elections in which they donated to more winning candidates than losing candidates. Extending that research, Akey and Lewellen (2017) note that this statistically significant effect of gained political connections via PAC contributions is larger in magnitude for firms which are considered more sensitive to government policy decisions. Notably, Akey (2015) and Akey and Lewellen (2017) focus solely on close elections in which the margin of victory (or defeat) was less than or equal to 5%. I will similarly focus on close elections in this paper. This allows me to reasonably assume that the election outcome was unpredictable and thus not previously accounted for in the market.

Importantly, the extensive prior literature on the issue of corporate political connections is largely focused on pre-2010 periods. Consequently, the implications of the *Citizens United* decision have not yet been fully accounted for in the research. Albuquerque, Lei, Rocholl, and Zhang (2020) do find that the level and value of state-level Corporate PAC contributions have remained steady after *Citizens United*. Their paper, though, focuses only on state-level outcomes. I focus solely on national-level Corporate PACs and federal elections. Furthermore, Albuquerque et al. (2020) do not include any contribution data following the 2012 election cycle. I expand the time period to include all elections between 2000 and 2020 in hopes of understanding the longer-term implications of the *Citizens United* ruling.

I measure these implications using a triple differences-in-differences framework, detailed in the “Methodology” section below, in order to determine how the “wedge” between the post-election financial performance of politically connected and non-connected firms has been affected by *Citizens United*. My resulting analysis, according to multiple parameters for financial outcomes,

indicates that *Citizens United* has effectively erased the value previously created by net gains in political connections via by PAC contributions.

More specifically, my empirical results indicate that prior to *Citizens United*, daily stock returns increase by a statistically significant magnitude for firms which had contributed to more winning candidates than losing candidates in close elections. The magnitude of this increase varies depending on the return window specified. A window of [-1, +30] days from the election date indicate an approximate 17-basis point increase to daily stock returns for “winning” firms. A [-5, +1] window suggests a slightly higher daily return of 69-basis points.

After *Citizens United*, though, my results suggest that this positive shock to daily stock returns for “winning” firms in close elections is pulled back towards zero. Daily returns increase by 13-basis points less after *Citizens United* when measured using a window of [-1, +30] days. The results for the [-5, +1] window similarly indicate that daily returns increase by 49-basis points less after *Citizens United* for firms which had gained connections in close elections.

Similar results occur with other financial outcomes, like market-to-book, investment, sales, and total asset ratios. Each of these financial outcomes increase by a significant magnitude for firms which had contributed to more winning candidates than losing candidates in close elections. Specifically, market-to-book and investment ratios increase by 5.6% and 2.7%, respectively, for “winning” firms. Sales and total assets similarly increase by 3.7% and 2.1% for firms with net gains in political connections. Other financial outcomes, like debt and SG&A expense, decrease by a significant magnitude for “winning” firms. Debt-to-book ratios decrease by 1.4% and SG&A expense decreases by 2.8% for firms which had gained connections in close elections.

As was the case for stock returns, the effects to these financial outcomes are noticeably dampened in the election cycles after the *Citizens United* ruling. Market-to-book and investment ratios increase by 8.5% and 2.8% less for “winning” firms after the Supreme Court ruling. Sales and total assets increase by 2.6% and 1.8% less after *Citizens United*. Comparably, debt-to-book ratios and SG&A expense decrease by 1.7% and 2.7% less. These results suggest that the *Citizens United* ruling has lessened the value of gained political connections in close elections.

The analysis below will explore these new findings in more detail. I begin with a summary of the prior literature regarding the value of political connections and the immediate impacts of *Citizens United*. I then explain my data and methodology, followed by a more complete discussion of my empirical results and their potential implications.

## LITERATURE REVIEW

As noted above, there are a few ways that a firm can become involved in the political process. The most easily quantified involvement is via political donations from traditional Corporate PACs. Other more discreet forms of corporate political spending like lobbying or independent expenditures are noticeably more difficult, sometimes even impossible, to accurately quantify. Firms can also become involved in non-financial ways by hiring former government officials or forming working relationships with key policymakers.

In the next three subsections, I highlight multiple studies which quantify the effect of a firm's political activity upon its financial outcomes. I begin with a discussion of qualitative political connections, defined as a firm's relationships with and access to politicians. Following, I discuss the more quantifiable connections established by a firm, primarily focusing on campaign contributions by Corporate PACs. I conclude this section with a brief overview of the current literature on *Citizens United* and its effects upon political spending.

### **Political Relationships and Business Outcomes**

One of the earliest studies which considers the relationships between firms, politicians, and business outcomes was performed by Roberts (1990) following the unexpected death of the prominent United States Senator from Washington state, Henry "Scoop" Jackson, in 1983. At the time, Jackson was the top-ranking Democrat on the powerful Armed Services Committee; however, it was widely believed that the Democrats would soon regain the majority in the Senate, propelling Jackson to the influential position of Committee Chairman. Roberts (1990) examines

the stock returns in the days surrounding Jackson's death of companies which had had political ties with the soon-to-be Chairman. In the study, Roberts (1990) defines "political ties" in two ways: firms with manufacturing plants in Jackson's state (his "geographic constituency") and firms with PACs that contributed to Jackson's campaign (his "resource constituency"). After Jackson's death, the politically connected firms saw a statistically significant negative reaction in their stock returns. Interestingly, Roberts (1990) finds that firms connected to the senator who replaced Jackson as ranking Democrat on the Armed Services Committee, Senator Sam Nunn of Georgia, experienced the opposite effect—statistically significant positive stock returns.

A similar study was conducted by Fisman (2001) regarding rumors about a different influential government official's deteriorating health—Indonesian President, Suharto. In the late 1990s, the Indonesian economy was spirally downwards, and there was speculation that capital was being inefficiently allocated to firms which were politically connected to Suharto and his family, rather than to the most deserving businesses. Fisman (2001) uses the Suharto Dependency Index developed by a Jakartan economic consulting firm in 1995 in order to measure the relationship between politically connected firms' market valuations and rumors about Suharto's health. Fisman (2001) finds that as a firm became more politically dependent (as measured by the Suharto Dependency Index), it experienced more volatile stock returns on and around announcements regarding President Suharto's health.

Brown and Huang (2020) also explore how a firm's relationship with the leader of a government affects its financial outcomes. Rather than the Indonesian president, Brown and Huang (2020) track relationships with the former U.S. President, Barack Obama. They measure a firm's connection with the Obama administration by tracking the number of meetings that the firm had

with key policymakers in the executive branch between 2009 and 2015. They find that after firms' meetings with policymakers were made public, firms experienced a significant cumulative abnormal return (CAR) of +0.375%. The CAR was even higher for firms who had also contributed more to Obama's presidential campaign than to his opponent's campaign. Additionally, Brown and Huang (2020) utilize the unexpected election of President Donald Trump in 2016 to measure how these Obama-connected firms reacted, assuming that the firms connected to the Obama administration would be less connected to the incoming Trump administration. Perhaps predictably, the firms which had had access to the outgoing Obama administration, but not to Trump's incoming administration, experienced negative abnormal returns in the days following Donald Trump's victory.

Similar studies with more international perspectives find comparable relationships between a corporation's political relationships and stock returns. Faccio (2006) uses an original dataset to examine how a firm's political connections affect its financial value. A connected firm was defined as having at least one company officer or major shareholder who was currently or formerly an elected government official. Using her a database of 20,202 publicly traded firms in 47 different countries, Faccio (2006) finds that 541 firms were "connected" politically. These firms tended to experience positive stock reactions after the announcement of such connections. Notably, this effect was larger if the elected official had been or was becoming a prime minister, as opposed to simply a member of their country's parliamentary body.

Using the same definition of "politically connected," Faccio, Masulis, and McConnell (2006) extend this research to conclude that politically connected firms are twice as likely to be bailed out by government institutions across the world. Using a database of 450 connected firms

paired with a matching set of non-connected firms, Faccio et al. (2006) find that 11.3% of connected firms received aid packages between the years 1997 and 2002, compared to only 4.4% of non-connected firms. This disparity was found to be statistically significant. Notably, the connected firms that were bailed out tended to underperform their matching unconnected and unbailed out firms in the period after the bailout, suggesting that the distribution of government funds was allocated inefficiently (Faccio et al., 2006).

Further specifying this research on government bailouts, Duchin and Sosyura (2011) focus specifically on the U.S.'s allocation of government capital to private firms under the Capital Purchase Program (CPP) during the 2008 recession. According to their regression analysis, firms with political connections were more likely to both apply for and receive funds from the CPP (Duchin & Sosyura, 2011). Connections were measured in multiple ways, including the existence of politically connected directors, the location of company headquarters within a member of the House Financial Services Subcommittee's district, the firm's size-adjusted lobbying expenditures, and the firm's campaign contributions to a Financial Services Subcommittee member. These connections are compiled into a "political connections index" by Duchin and Sosyura (2011), who find that firms in the top quartile of that index were 13.4% more likely to receive CPP funding than the firms in the bottom quartile of the index. This increased likelihood was found to be statistically significant. However, despite similar performance prior to the bailout, connected firms that received CPP funding tended to underperform unconnected firms by numerous measures in the year following the bailout. Such measures of performance included quarterly ROA, quarterly stock returns, and Tobin's Q. Similar to the conclusions of Faccio et al. (2006), these results may

indicate agency problems on the part of government officials in their allocation of government funds.

### **Campaign Contributions and Business Outcomes**

While the studies in the previous subsection primarily concern a firm's qualitative relationships with political figures, there is also considerable research involving political connections created by campaign contributions. Similar to Faccio et al. (2006) and Duchin and Sosyura (2011), Aggarwal, Meschke, and Wang (2012) discover agency issues linked to political connections; however, the agency problems discovered by Aggarwal et al. (2012) are within the corporation rather than the government. Their paper focuses on expenditures made directly by corporate treasuries between 1991 and 2004 in the form of independent expenditures ("soft money") or donations to 527 committees.<sup>1</sup> Aggarwal et al. (2012) determine that a \$10,000 increase in independent expenditures and 527 donations led to an annual excess return of -0.074%. Consequently, Aggarwal et al. (2012) argue that political spending by firms represent agency problems and signal poor financial decision-making. These findings by Aggarwal et al. (2012) complement the conclusions reached by Coates (2012), who finds that shareholder-friendly governance within firms was negatively correlated with a firm's level of political activity between the years 1998 and 2004.

However, there is considerably more literature that advocates for nearly the opposite conclusion—that is, a firm's successful political contributions are value-enhancing and thus a

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<sup>1</sup> Most independent expenditures and donations to 527 groups via corporate treasuries were made illegal by the Bipartisan Campaign Reform Act of 2002, but later reallocated by the *Citizens United v. FEC* ruling of 2010.

justifiable investment. It is important to note, though, that the following papers reach their conclusions using a different measurement of political connections than Aggarwal et al. (2012). Rather than soft money contributions and/or donations to 527 groups funded by corporate treasuries, the following studies focus on contributions made by traditional Corporate PACs to candidates. Corporate PACs, while managed by the corporation, cannot spend unlimited amounts of money out of its associated corporate treasury. Rather, they must solicit donations from individual contributors—usually employees—each of whom have contribution limits.

Cooper, Gulen, and Ovtchinnikov (2010) use Corporate PAC contribution data in order to measure the effect of a firm's political spending upon its financial outcomes like stock returns and profitability. Importantly, Cooper et al. (2010) focus merely on the total number of candidates to whom a firm's PAC donated money, without regard for the candidates' subsequent electoral victories or defeats. They find that there is a significant and positive correlation between the number of supported candidates and a firm's future returns. Specifically, a one standard deviation increase in the number of candidates supported by a firm is associated with a +2.61% abnormal annual return. Cooper et al. (2010) point out that firms which supported more candidates tended to be both larger in size and more profitable.

Akey (2015) also uses Corporate PAC data; however, unlike Cooper et al. (2010), he distinguishes between firms which had donated to winning candidates and those which had donated to losing candidates. To quantify this distinction, he calculates a variable for each firm called  $Total P_{i,t}$  that represents a firm's net gain/loss in political connections. For example, if a firm donated to 3 winning candidates and 2 losing candidates, its  $Total P_{i,t}$  would equal +1. Importantly, Akey (2015) narrows his election sample to those which were won by a margin of

5% or less to ensure that the election results were mostly unpredictable. His results indicate that firms donating to more winning candidates than losing candidates experience 3% higher abnormal stock returns in the three to seven days after the election. This effect is even larger when the election sample is limited to special elections. Akey (2015) also finds that connections gained with powerful members of Congress create even more value for the firm. Indirect contributions, defined as contributions to senior politicians who in turn transferred money to their more junior colleagues' election committees, are also more valuable to firms. Akey (2015) hypothesizes that this increased positive effect for indirect contributions is likely due to the influence more senior politicians later have over their junior colleagues.

Akey and Lewellen (2017) specify this effect further by adding a variable that measures each firm's policy sensitivity. Using a similar sample of close elections, Akey and Lewellen (2017) find that firms labelled as "policy-sensitive" experience greater gains (losses) following a net gain (loss) of political connections. When isolating their sample of firms to only those classified as policy-sensitive, they find the difference between post-election financial outcomes for the winning and losing firms to be economically and statistically large. In contrast, a sample of only policy-neutral firms experience an economically and statistically small difference in outcomes. Outcomes measured by their study include investment, leverage, implied volatility, and Tobin's Q.

With few exceptions, the consensus reached within the literature seems to be that a firm's political connections—whether measured by its personal relationships with government officials, meetings with key policymakers, number of supported candidates, or net gain in connections—have a positive impact on that firm's financial outcomes. This would indicate that a firm's political

activity is an investment in political capital rather than an agency problem or signal of inefficient corporate governance.

### **Citizens United and Political Capital**

Crucially, the literature discussed above focuses on pre-2010 data (with the exception of Brown and Huang's (2020) study of firms' meetings with the Obama administration). The connection between firms and political candidates was significantly redefined by the *Citizens United v. FEC* Supreme Court ruling on January 21, 2010.

The ruling included two notable changes—albeit large changes—to the campaign finance law which governs corporations, according to Mutch (2016). The ruling allows outside groups to make unlimited independent expenditures out of their general treasuries in support of or in opposition to candidates for office. The ruling also allows for the creation of Super PACs which could similarly make independent expenditures for or against candidates. These Super PACs can receive unlimited contributions from individuals, corporations, and labor unions (Hansen, Rocca, & Ortiz 2015). The only stipulation to such unlimited independent election spending is that the groups cannot coordinate their activities with the candidates. In essence, the Court's decision nullified the key provisions of the Bipartisan Campaign Reform Act of 2002 which had banned independent expenditures.

Analyzing data from the 2012 election cycle—the first full election cycle operating under *Citizen United's* new rules—Hansen, Rocca, and Ortiz (2015) find a 594% increase in independent expenditures compared to the 2008 election cycle. Many mistakenly posit that this increase was

primarily due to new independent expenditures by corporations. However, Hansen et al. (2015) surprisingly find that *Citizens United* had little effect on corporations' use of both traditional Corporate PACs and independent expenditures via Super PAC contributions. Hansen et al. (2015) conclude that the majority of this documented increase in independent expenditures during the 2012 election cycle was due to both labor unions and private individuals donating to Super PACs.

Evers-Hillstrom (2020), using data from the Center for Responsive Politics, similarly notes that the decade after *Citizens United* has been the most expensive decade in the history of U.S. federal elections. He points out that non-party outside groups have spent approximately \$4.5 billion since the 2010 election cycle. In contrast, non-party outside groups only spent \$750 million in the two decades prior to the 2010 ruling. In agreement with Hansen et al. (2015), Evers-Hillstrom (2020) finds that the vast majority of this increased spending is from private individuals rather than corporations, who account for less than 10% of disclosed outside group fundraising for elections.

Also contributing to the post-*Citizens United* literature with regards to corporate political activity, Albuquerque, Lei, Rocholl, and Zhang (2020) recently found that politically connected firms experienced lower announcement returns after the *Citizens United* ruling than non-connected firms. In their study, a firm is considered politically connected when at least one of their top executives, board members, and/or senior managers had previously been employed by a government organization in the U.S. These lower announcement returns indicate, according to Albuquerque et al. (2020), a \$6.9 million decrease in the value of these qualitative connections. Notably, they do not hypothesize that such connections are no longer valuable, but simply that they are less valuable following *Citizens United*. With regards to state-level Corporate PAC

contributions, Albuquerque et al. (2020) find that there was no change to the level or value of PAC contributions after the *Citizens United* ruling. They similarly find that the ruling had no significant effect upon lobbying spending and executives' contributions to candidates.

These findings are in contrast with those of Coates (2012), who concludes that lobbying and PAC activity have both increased in frequency and amount after *Citizens United*. While Albuquerque et al. (2020) posit that modes of corporate political activity are mostly substitutable, Coates (2012) argues that they are in fact complements. It is important to note, though, that Albuquerque et al. (2020) focus specifically on state-level PAC contributions rather than national. Additionally, both Coates (2012) and Albuquerque et al. (2020) focus on the 2007-2012 election cycles in their study. Similar to Hansen et al. (2015), their studies do not include data on the important period following the 2012 election cycle, thus limiting their ability to consider the longer-term implications of *Citizens United*.

The remainder of this paper will build upon the existing literature in hopes of learning more about this under-researched period of political connections following the 2010 *Citizens United* ruling. Extending the work of Albuquerque et al. (2020), I focus on national-level elections and PAC contributions rather than state-level activity. I also include a larger sample of election cycles both prior to and following *Citizens United* to further understand the longer-term implications of the decision. Using a methodology similar to Akey (2015) and Akey and Lewellen (2017), I find that Corporate PAC contributions in close election, although valuable to firms prior to *Citizens United*, have become less valuable to firms in the years following the ruling.

## DATA COLLECTION

To measure the effect of *Citizens United* upon the value of Corporate PAC contributions, I first collected the relevant PAC contribution and election data from the Federal Election Commission (FEC) and financial data from Compustat and CRSP.

### Corporate PAC Contributions

I use the FEC's publicly disclosed bulk data files to collect and compile information on Corporate PAC contributions to candidates' Election PACs. Specifically, I use the FEC's "Any transaction from one committee to another" bulk data file to create a transaction-level dataset detailing all exchanges of money between PACs. Using the FEC ID number assigned to each PAC, I identify each transaction's contributing PAC and receiving PAC. This paper is primarily interested in transactions in which the contributor is a Corporate PAC and receiver is a candidate's Election PAC.

Although the data spans back to the 1982 election cycle, I focus on the period between the 2000 election cycle and the 2020 election cycle—or the ten years prior to and following the *Citizens United* ruling. An election cycle is defined as the period between an election and the previous election. For example, the 2000 election cycle includes contributions made after the 1998 election but before the 2000 election. Since the *Citizens United* ruling occurred in January of 2010, halfway through the 2010 cycle, I define post-*Citizens United* as beginning with the 2012 cycle. Pre-*Citizens United* election cycles are defined as the 2000-2010 cycles.

## **Election Outcomes**

After collecting the Corporate PAC contribution data, I compile information on election results for every federal congressional election that has occurred since 2000. Again, I use data files published every two years by the FEC that report certified federal election results for primary, general, and runoff elections. This data includes House, Senate, and Presidential election results as well as information on every candidate's name, party affiliation, state, district (if applicable), incumbency status, votes received, and FEC Candidate ID number. I manually calculate each candidate's vote total in percentage as well as their margin of victory or defeat.

Focusing particularly on general election results for House and Senate races, I use each candidate's ID number to match the election results to corresponding transactions found in the Corporate PAC contribution dataset described in the previous subsection.

## **Financial Outcomes**

In addition to matching the PAC transaction data with election results, I link each Corporate PAC to corresponding stock return data from CRSP.<sup>2</sup> I then further linked the CRSP data to financial data from Compustat, including the four quarters prior to and following the cycle's election day.

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<sup>2</sup> Thank you to Pat Akey for allowing me to use his file which links Corporate PACs to their sponsoring organization's "Permno ID" in the CRSP database.

## METHODOLOGY

### Relevant Variables

After collecting and organizing the Corporate PAC transaction data, election results, and firm-level financial information, I compile these data into a single dataset. I construct the dataset by connecting the Corporate PAC contribution data with corresponding election results data using the candidate's ID number. For each transaction in the Corporate PAC data, I include the margin of victory (or defeat) for the candidate receiving the contribution. This paper is solely interested in elections with a margin of victory (or defeat) less than or equal to 5%.

Like Akey and Lewellen (2017), I calculate a *Close Wins*, *Close Losses*, and *Net Close Wins* variable for each firm. *Close Wins* is the number of candidates to whom the firm contributed that won a close election. The *Close Losses* variable calculates the number of candidates to whom the firm contributed that lost in a close election. I use these variables to find a *Net Close Wins* variable, calculated as  $Close Wins - Close Losses$ .

For example, suppose Widget Co.'s Corporate PAC donated to 5 candidates in the 2008 election cycle. If 3 of those candidates won and 2 lost, Widget Co. would have gained a net of +1 connections. Additionally, though, assume only 1 of the winning candidates won by less than 5% (*Close Win*) and both losing candidates lost by less than 5% (*Close Loss*). In this scenario, Widget Co. would have 1 *Close Win* and 2 *Close Losses*, thus giving it a *Net Close Wins* variable of -1. By focusing only on close elections, I can reasonably assume that the election outcomes were random and therefore not previously accounted for in the market.

A *Net Close Wins* variable, as described above, is included for every firm in each election cycle in which its Corporate PAC contributed to a candidate. For example, if Widget Co. made Corporate PAC contributions to candidates in 2008, 2010, and 2012, the firm would have a unique *Net Close Wins* variable for each of the three cycles.

After calculating the *Net Close Wins* variable and merging the PAC data with CRSP and Compustat, I have an original dataset containing in each row the firm identification number, election cycle year, *Net Close Wins*, contribution amount, and various financial data for that quarter. I also construct dummy variables for each row named *Post*, *Close*, and *CU*.

*Post* is a dummy variable which takes the value of one if the time period,  $t$ , is after the election date and zero otherwise. A *Close* value of one can be interpreted as a positive exogenous shock to the firm's political capital in the form of a net gain to political connections (positive *Net Close Wins*). The *Close* variable is zero if the given firm has a non-positive *Net Close Wins* variable, meaning that the firm did not gain any political connections in that cycle. Finally, the *CU* dummy variable takes the value of one if the election cycle is after *Citizens United* (2012 or later) and zero otherwise.

The empirical framework outlined below estimates how political capital shocks in the form of positive or non-positive *Net Close Wins* affect a firm's financial outcomes. The addition of the *CU* variable allows me to determine how this political capital effect has changed in the post-*Citizens United* era.

## Empirical Framework

I use a triple differences-in-differences empirical framework to estimate the change in value of *Net Close Wins* for firms following *Citizens United*. The following outlines this framework:

$$\begin{aligned} Outcome_{i,t} = & \alpha + \beta_1 Post_t + \beta_2 Close_{i,t} + \beta_3 Post_t \times Close_{i,t} + \beta_4 CU_{i,t} + \beta_5 Post_t \times CU_{i,t} \\ & + \beta_6 Close_{i,t} \times CU_{i,t} + \beta_7 Post_t \times Close_{i,t} \times CU_{i,t} + \Gamma' Controls_{i,t} \\ & + Firm \times Election Cycle FE + \epsilon_{i,t} \end{aligned}$$

where  $i$  indexes firms and  $t$  indexes time. I also include a variable that accounts for firm fixed effects and adjusts for clustered standard errors. The *Close*, *CU*, and *Close x CU* variables represented above by  $\beta_2$ ,  $\beta_4$ , and  $\beta_6$  are omitted from my tests.

$\beta_3$  represents the post-election effect of a positive political capital shock (a positive *Net Close Wins* variable) upon the financial outcomes of a firm prior to *Citizens United*. To be consistent with other studies,  $\beta_3$  would have to be statistically significant with a positive direction for financial outcomes like stock returns, investment, and sales. For outcomes like debt and SG&A expense, the direction would be negative (see Roberts (1990), Cooper et al. (2010), Duchin & Sosyura (2011), Akey (2015), and Akey & Lewellen (2017)).

Unique and most important to this study, though, is  $\beta_7$  as it indicates the differential effect of forming political connections via Corporate PACs after *Citizens United* as opposed to before the ruling. In other words, it captures the approximate difference or “wedge” between the value created by political contributions prior to *Citizens United* and the value created afterwards. If  $\beta_7$  is positive, it would indicate that political connections via Corporate PACs create more value after

*Citizens United*. A negative  $\beta_7$  would suggest that Corporate PAC contributions have become less valuable to firms after *Citizens United*.

## RESULTS

With the prior literature in mind, I began my tests with the expectation that gaining political connections via Corporate PAC contributions prior to *Citizens United* would have a statistically significant impact on various firm-level financial outcomes like stock returns, investment, market-to-book ratios, leverage, assets, and sales (see Roberts (1990), Cooper et al. (2010), Duchin & Sosyura (2011), Akey (2015), and Akey & Lewellen (2017)). The results of my tests support this hypothesis.

### Stock Returns

As quantified by the *Post x Close* interaction in Table 1, firms experience statistically significant increases to daily stock returns following a positive shock to political connections. Using an event window of [-1, +30] days from the election, a net gain of political connections in close elections led to an approximate 17-basis point increase in daily stock return relative to net-losing firms. Changing the event window to [-5, +1] days similarly indicates a 69-basis point increase in daily stock returns, relative to firms with *Close* variables equal to zero. These statistically significant increases in post-election daily stock returns for firms with positive *Net Close Wins* fall within a range of 3.7% to 15.2% when converted to monthly returns, using the [-1, +30] and [-5, +1] windows, respectively.

After *Citizens United*, though, this positive effect of gained connections seems to have disappeared. The *Post x Close x CU* interaction in Table 1 quantifies this dampening effect upon post-election stock returns. Using the window of [-1, +30] days from election day, daily stock

returns increase by 13-basis points less after *Citizens United*. A window of [-5, +1] days similarly indicates that daily returns increase by 49-basis points less after the ruling. In both direction and magnitude, the stock return gains caused by a positive shock to political connections have been effectively reduced to zero after the *Citizens United* ruling.

**Table 1: Daily Stock Returns Results (Triple Differences-in-Differences)**

EVENT WINDOW (DAYS):	(-1, +1)	(-1, +5)	(-5, +1)	(-5, +5)	(-1, +30)
	(1)	(2)	(3)	(4)	(5)
	Daily Return	Daily Return	Daily Return	Daily Return	Daily Return
<i>Post x Close</i>	0.0044*** (0.00117)	0.00319*** (0.00107)	0.00693*** (0.000959)	0.00577*** (0.000838)	0.00169* (0.000950)
<i>Post x CU</i>	-0.005*** (0.00101)	0.000963 (0.000863)	0.0077*** (0.000869)	0.0139*** (0.000755)	-0.0045*** (0.000782)
<i>Post x Close x CU</i>	0.00106 (0.00159)	-0.0035*** (0.00135)	-0.0049*** (0.00131)	-0.0097*** (0.00109)	-0.00138 (0.00122)
<b>Fixed effects</b>	Firm-Cycle	Firm-Cycle	Firm-Cycle	Firm-Cycle	Firm-Cycle
<b>Clustering</b>	Firm-Cycle	Firm-Cycle	Firm-Cycle	Firm-Cycle	Firm-Cycle
<b>Observations</b>	23,574	54,985	53,527	84,938	250,247
<b>R-squared</b>	0.291	0.164	0.151	0.090	0.050

*Robust standard errors in parentheses.*

\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

*Extended results can be found in Appendix A.*

### Other Financial Outcomes

Table 2 and 3 below similarly show that a firm experiences a statistically significant increase in its market-to-book, investment, sales, and total asset ratios given a positive shock to political connections prior to *Citizens United*, reflected in the *Post x Close* variable. More

specifically, market-to-book and investment ratios rise by 5.6% and 2.7%, respectively, for firms that gained more connections than they lost in close elections. Likewise, sales and total assets increase by 3.7% and 2.1% in the four quarters after a positive shock to political connections. Outcomes like debt-to-book and SG&A expenses experience a statistically significant negative effect, at -1.4% and -2.8% respectively, given a positive shock to political capital. The directionally positive effects upon market-to-books, investment, sales, and total asset ratios as well as the directionally negative effects upon debt and SG&A expense support the conclusion that gained political connections via Corporate PACs are value-enhancing.

Consistent with the stock return results, Table 2 and 3 further show that, given a positive shock to *Net Close Wins*, firms' market-to-book ratios increase by 8.5% less after *Citizens United* than if that same shock had occurred before the ruling. This "Citizens United Effect," reflected by *Post x Close x CU*, effectively cancels out the positive effects of gaining *Net Close Wins*. Providing further confirmation, investment, sales, and total assets increase by 2.8%, 2.6%, and 1.8% less, respectively, after *Citizens United*. Financial outcomes like debt-to-book and SG&A expenses, all of which decrease given a positive shock to political connection prior to *Citizens United*, similarly are pulled back to zero after *Citizens United*.

**Table 2: Financial Outcomes Results (Triple Differences-in-Differences)**

	(1) Market-to- Book	(2) Investment	(3) Debt-to- Book	(4) Sales	(5) SG&A	(6) Assets
<i>Post</i>	-0.0959*** -0.0107	-0.00113* -0.000579	0.00202 -0.00146	0.0302*** -0.00588	-0.000228 -0.00166	0.0557*** -0.00501
<i>Post x Close</i>	0.0562*** (0.0145)	0.00139* (0.000793)	-0.00405** (0.00205)	0.0368*** (0.00839)	-0.00957* (0.00578)	0.0213*** (0.00708)
<i>Post x CU</i>	0.140*** -0.0158	-0.000582 -0.000825	0.00786*** -0.00243	-0.0107 -0.00813	0.00284 -0.0023	-0.00930 -0.00768
<i>Post x Close x CU</i>	-0.0847*** (0.0218)	-0.00146 (0.00112)	0.00472 (0.00326)	-0.0257** (0.0118)	0.00929 (0.00768)	-0.0180* (0.0105)
<b>Fixed effects</b>	Firm-cycle	Firm-cycle	Firm-cycle	Firm-cycle	Firm-cycle	Firm-cycle
<b>Clustering</b>	Firm-cycle	Firm-cycle	Firm-cycle	Firm-cycle	Firm-cycle	Firm-cycle
<b>Observations</b>	36,447	34,775	38,459	35,267	24,386	38,459
<b>R-squared</b>	0.930	0.692	0.955	0.986	0.555	0.996

*Robust standard errors in parentheses.*

\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

*Extended results can be found in Appendix B.*

*Variable definitions can be found in Appendix D.*

**Table 3: Percent Change of Financial Outcomes (Triple Differences-in-Differences)**

	Market-to- Book	Investment	Debt-to- Book	Sales	SG&A	Assets
<i>Post x Close</i>	0.056***	0.00139*	-0.00405**	0.0368***	-0.00957*	0.0213***
<b>% Change</b>	5.6%	2.7%	-1.4%	3.7%	-2.8%	2.1%
<i>Post x CU x Close</i>	-0.085***	-0.00146	0.00472	-0.0257**	0.00929	-0.0180*
<b>% Change</b>	-8.5%	-2.8%	1.7%	-2.6%	2.7%	-1.8%
<b>Sample Mean</b>	1.00	0.052	0.285	1.00	0.344	1.00

\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

“% Change” is calculated as the triple differences-in-differences result divided by the sample mean.

## Key Findings

Consequently, I find my pre-*Citizens United* results support the prior literature which concludes that a “wedge” forms between firms that gained political connections and those that lost (or did not gain) political connections prior to *Citizens United*. I have found that the magnitude of this wedge is statistically significant and favorable in direction.

The consistency with previous studies lends credence to the findings which are unique to this paper—namely, the dampening effects of *Citizens United*. I find that the post-election effects of gained political connections upon a firm’s financial outcomes have disappeared in the post-*Citizens United* era. In other words, the “wedge” that had long-existed between firms with positive *Net Close Wins* and non-positive *Net Close Wins* no longer exists following *Citizens United*.

## CONCLUSION

The findings in this paper contribute to the prior literature in its attempt to understand the relationship between corporate political contributions and their corresponding financial outcomes. Importantly, though, it extends that prior literature to the post-*Citizens United* era in hopes of explaining how the landmark decision has altered this studied relationship.

I find, perhaps surprisingly, that the “wedge” which had existed prior to 2012 between firms with net gains in PAC-created connections and firms with net losses in PAC-created connections has been effectively reduced to zero after the *Citizens United* decision. Daily stock returns, which had previously increased following an election for firms with positive *Net Close Wins*, increase by 10 to 140-basis points less after 2010, dependent upon the event window. Similarly, outcomes like sales, investment, and assets, increase by 2.6%, 2.8%, and 1.8% less after *Citizens United*.

In light of this “Citizens United Effect,” which suggests that PAC contributions have lost much of their financial value to firms post-2010, we might expect that this particular method of election spending would be used less frequently by corporations. Yet, as Evers-Hillstrom (2020) finds in his Center for Responsive Politics report, corporations have largely not altered their election spending habits after the *Citizens United* ruling, thus raising the question for future researchers: why have firms continued to spend via Corporate PACs if the value created by such spending has been effectively reduced to zero?

Additionally, future research might attempt to understand how the value created by a corporation’s independent expenditures differ from the value created by its PAC contributions.

This particular strand of research is unfortunately severely limited at present given the lack of disclosure requirements for most forms of independent expenditures.

Until such research is able to be conducted, the analysis in this paper seems to most directly support the conclusion that contributions by Corporate PACs to candidates have not been as valuable to firms after the *Citizens United* decision in 2010. Consequently, the era of PAC contributions as an investment in political capital may be coming to an end.

## APPENDIX A: Stock Return Results

### Table 4: Extended Daily Stock Return Results

EVENT WINDOW (DAYS):	(-1, +1)	(-1, +5)	(-5, +1)	(-5, +5)	(-1, +30)	(-5, +30)	(-1, +1)	(-1, +5)	(-5, +1)	(-5, +5)	(-1, +30)	(-5, +30)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	Daily Return	Daily Return	Daily Return	Daily Return	Daily Return	Daily Return	Daily Return	Daily Return	Daily Return	Daily Return	Daily Return	Daily Return
<i>Post x Close</i>	0.005*** (0.0008)	0.002*** (0.0007)	0.005*** (0.0007)	0.002*** (0.0006)	0.0014** (0.0006)	0.001*** (0.0004)	0.004*** (0.0012)	0.003*** (0.0011)	0.007*** (0.001)	0.006*** (0.0008)	0.00169* (0.001)	0.004*** (0.0006)
<i>Post x CU</i>							-0.005*** (0.001)	0.000963 (0.0009)	0.008*** (0.0009)	0.014*** (0.0008)	-0.004*** (0.0008)	0.008*** (0.0005)
<i>Post x Close x CU</i>							0.00106 (0.00159)	-0.003*** (0.00135)	-0.005*** (0.00131)	-0.01*** (0.00109)	-0.00138 (0.00122)	-0.007*** (0.00079)
<b>Fixed effects</b>	Firm-Cycle	Firm-Cycle	Firm-Cycle	Firm-Cycle	Firm-Cycle	Firm-Cycle	Firm-Cycle	Firm-Cycle	Firm-Cycle	Firm-Cycle	Firm-Cycle	Firm-Cycle
<b>Clustering</b>	Firm-Cycle	Firm-Cycle	Firm-Cycle	Firm-Cycle	Firm-Cycle	Firm-Cycle	Firm-Cycle	Firm-Cycle	Firm-Cycle	Firm-Cycle	Firm-Cycle	Firm-Cycle
<b>Observations</b>	23,574	54,985	53,527	84,938	250,247	280,200	23,574	54,985	53,527	84,938	250,247	280,200
<b>R-squared</b>	0.291	0.164	0.150	0.084	0.050	0.047	0.291	0.164	0.151	0.090	0.050	0.048

*Robust standard errors in parentheses.*

\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

*Variable definitions can be found in Appendix D.*

## APPENDIX B: Financial Outcomes Results

**Table 5: Extended Financial Outcomes Results**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	<b>Market-to-Book</b>	<b>Investment</b>	<b>R&amp;D Ratio</b>	<b>Leverage-to-Book</b>	<b>Debt-to-Book</b>	<b>Sales</b>	<b>Margin</b>	<b>COGS</b>	<b>SG&amp;A</b>	<b>Assets</b>
<i>Post</i>	-0.0959*** -0.0107	-0.00113* -0.000579	3.32e-05 -0.000404	0.00770*** -0.00187	0.00202 -0.00146	0.0302*** -0.00588	-0.0113*** -0.00431	0.00887** -0.00394	-0.000228 -0.00166	0.0557*** -0.00501
<i>Post x Close</i>	0.0562*** (0.0145)	0.00139* (0.000793)	-0.000383 (0.000468)	-0.00500** (0.00244)	-0.00405** (0.00205)	0.0368*** (0.00839)	0.0108 (0.00882)	-0.000230 (0.00727)	-0.00957* (0.00578)	0.0213*** (0.00708)
<i>Post x CU</i>	0.140*** -0.0158	-0.000582 -0.000825	-0.000489 -0.000465	0.00260 -0.00259	0.00786*** -0.00243	-0.0107 -0.00813	7.38e-05 -0.00653	-0.00187 -0.00593	0.00284 -0.0023	-0.00930 -0.00768
<i>Post x Close x CU</i>	-0.0847*** (0.0218)	-0.00146 (0.00112)	0.00101 (0.000730)	0.00486 (0.00358)	0.00472 (0.00326)	-0.0257** (0.0118)	-0.0176 (0.0149)	0.00741 (0.0119)	0.00929 (0.00768)	-0.0180* (0.0105)
<b>Fixed effects</b>	Firm-cycle	Firm-cycle	Firm-cycle	Firm-cycle	Firm-cycle	Firm-cycle	Firm-cycle	Firm-cycle	Firm-cycle	Firm-cycle
<b>Clustering</b>	Firm-cycle	Firm-cycle	Firm-cycle	Firm-cycle	Firm-cycle	Firm-cycle	Firm-cycle	Firm-cycle	Firm-cycle	Firm-cycle
<b>Observations</b>	36,447	34,775	11,426	38,459	38,459	35,267	35,164	35,175	24,386	38,459
<b>R-squared</b>	0.930	0.692	0.776	0.960	0.955	0.986	0.458	0.536	0.555	0.996

*Robust standard errors in parentheses.*

\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

*Variable definitions can be found in Appendix D.*

## APPENDIX C: Percent Change of Financial Outcomes

**Table 6: Extended Percent Change of Financial Outcomes**

	Market-to-Book	Investment	R&D Ratio	Leverage-to-Book	Debt-to-Book	Sales	Margin	COGS	SG&A	Assets
<i>Post x Close</i>	0.0562***	0.00139*	-0.000383	-0.00500**	-0.00405**	0.0368***	0.0108	-0.000230	-0.00957*	0.0213***
<b>% Change</b>	5.6%	2.7%	-3.0%	-0.7%	-1.4%	3.7%	111.9%	0.0%	-2.8%	2.1%
<i>Post x Close x CU</i>	-0.0847***	-0.00146	0.00101	0.00486	0.00472	-0.0257**	-0.0176	0.00741	0.00929	-0.0180*
<b>% Change</b>	-8.5%	-2.8%	8.0%	0.7%	1.7%	-2.6%	-182.3%	1.1%	2.7%	-1.8%
<b>Sample Mean</b>	1	0.05193	0.012649	0.6873803	0.2850907	1	0.009653	0.6772764	0.3439942	1

*Robust standard errors in parentheses.*

\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

“% Change” is calculated as the triple differences-in-differences result divided by the sample mean.

Variable definitions can be found in Appendix D.

## APPENDIX D: Variable Definitions

**Table 7: Variable Definitions**

	<b>Defined as...</b>
<b>Market-to-Book</b>	<i>Market Capitalization / Book Value</i>
<b>Investment</b>	<i>Annual Capital Expenditures / Net PP&amp;E</i>
<b>R&amp;D Ratio</b>	<i>Quarterly R&amp;D Expense / Total Assets</i>
<b>Leverage-to-Book</b>	<i>Total Liabilities and Minority Interests / Total Assets</i>
<b>Debt-to-Book</b>	<i>Debt / Total Assets</i>
<b>Sales</b>	<i>ln (Sales)</i>
<b>Margin</b>	<i>EBIT / Sales</i>
<b>COGS</b>	<i>COGS / Sales</i>
<b>SG&amp;A</b>	<i>SG&amp;A / Sales</i>
<b>Assets</b>	<i>ln (Assets)</i>

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## ACADEMIC VITA

### Academic Experience

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#### **The Pennsylvania State University – Schreyer Honors College**

*Graduation: May 2021*

Bachelors of Science with Honors in Finance and Economics

### Professional Experience

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#### **Portfolio & Project Management Intern – PJM Interconnection**

*January 2021 – Present / December 2019 – January 2020 / May 2019 – August 2019*

- Improving the efficiency of monthly project reporting by formulating original Excel templates.
- Creating and presenting project reports to managers in the Corporate Client Service division.

#### **Research Assistant – Penn State University**

*September 2020 – Present (Corporate Law with Dr. Stefan Lewellen)*

- Using LexisNexis to search for state-level laws that regulate nonbank financial institutions.
- Compiling my findings into a searchable Excel file containing relevant state laws and accompanying descriptions.

*January 2020 – May 2020 (Economic Development with Dr. Michael Gechter)*

- Translated, cross-referenced, categorized, and consolidated data from Marathi primary sources.
- Wrote a 3-page summary of my research experience that was shared with the program's sponsor.

#### **Summer Analyst (Chase Leadership Development Program) – JPMorgan Chase & Co.**

*June 2020 – August 2020*

- Collaborated virtually with a team of interns to propose a redesigned retail bank branch expansion strategy.
- Attended weekly senior speaker events and leadership workshops.
- Partnered with CHOICES, a non-profit, to create a virtual delivery method for their educational program.

#### **Teaching Assistant – Penn State University**

*August 2018 – May 2020 (Macroeconomics with Professor James Tierney)*

- Monitored and provided written feedback to students regarding weekly class discussion posts.
- Proctored and graded every exam throughout the semesters.

*January 2019 – May 2019 (Corporate Finance with Professor Gregory Pierce)*

- Researched and compiled financial data for use by the professor in class.
- Proctored and graded exams throughout the semester.

### Extracurricular Activities

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#### **Case Study Finalist – TE Connectivity M&A Pitch**

*January 2020 – May 2020*

- Researched and presented a viable target company for an acquisition deal, including a financial valuation
- Pitched the M&A deal in a 15-minute group presentation to TE Connectivity's CFO and acquisitions team.

#### **Orientation Mentor – Schreyer Honors College**

*January 2019 – September 2019*

- Served as a mentor to first-year Schreyer students during and after their 3-day orientation program.
- Attended multiple leadership workshops throughout the preceding semester in preparation for the role.

#### **Student Consultant – Keystone Nano, Inc.**

*August 2018 – December 2018*

- Drafted, edited, and formatted the comprehensive 140-page business plan and company valuation.
- Presented our strategy to potential investors in an hour-long presentation at the Happy Valley Launch Box.