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# Prediction Markets, the True Value of the Revolving Door and the US Cabinet

## Abstract

We estimate the value of the revolving door for firm executives and directors joining the cabinets of the Trump I and Biden administrations. By combining intraday stock and prediction market data, we take the degree of anticipation of political appointments into account and we offer estimates for the true value of the revolving door. Following nominations, stock prices and expected appointment probabilities rise strongly for nominees and drop modestly for runners up. Although largely anticipated, prediction markets still move significantly on nomination announcements. For positive jumps in prediction markets, we also find large positive stock price reactions.

JEL-Codes: D730, G140.

Keywords: U.S. Cabinet, revolving door, event study, prediction market, stock market.

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#### 1 Introduction

On the morning of November 30, 2016, President-elect Donald Trump made it official: He was nominating CIT Group director Steven Mnuchin to be Secretary of the Treasury. Rumors to this effect began to circulate the previous evening, after the media had presented shortlists with many more potential candidates.<sup>1</sup> Accordingly, the prediction markets assessed Mnuchin's probability of a position in Trump's first cabinet to be 39 percentage points higher when financial markets opened on November 30, 2016, compared to what they did on the previous day's closing time, making it one of the most surprising nominations. And not only prediction markets reacted to the nomination: CIT Group shares gained 1.8 percent on market opening (see Figure 1).<sup>2</sup> This episode shows that financial market participants expect firms to capitalize on their connections to members of the U.S. Cabinet.



Figure 1. Prediction and CIT stock price reactions to Mnuchin's nomination

1. For example, Reuters' shortlist comprised John Allison, Tom Barrack, Jeb Hensarling, David Mc-Cormick, and Steven Mnuchin, the Wall Street Journal's John Allison, Jeb Hensarling, and Steven Mnuchin, and USA Today's Jonathan Gray and Steven Mnuchin; see Reuters News, "Factbox: Contenders, picks for key jobs in Trump's administration," November 29, 2016; The Wall Street Journal, "U.S. News: Romney Gets New Audition For State Post," November 29, 2016; USA Today Online, "3 weeks, 3 lessons about Trump's emerging presidency," November 29, 2016.

2. While news reports widely reported Mnuchin's board membership at CIT Group, very few individual reports mentioned his board membership at Sears Holdings. The shares of Sears Holdings were not trading when the market opened. In this paper, we analyze how stock markets value connections to the U.S. Cabinet. We assess stock market responses to appointments of firm executives and directors to the cabinets of Trump I and Biden. Some of these appointments are widely anticipated due to rumors and transition team whistleblowers. For example, newswires reported Lloyd Austin's pending nomination to Secretary of Defense well before Biden's official nomination tweet on December 9, 2020.<sup>3</sup> Correspondingly, prediction markets barely moved in reaction to this tweet. We go beyond analyzing stock price reactions to nominations of individuals connected to listed firms and leverage prediction markets in two important ways, allowing us to define two alternative event types with larger sample sizes. First, we use prediction markets to identify runners up for cabinet positions. Second, we also exploit large and sudden shifts in the expected appointment probability.

We capture the stock market reactions with an intraday event study approach. The outcomes are raw returns and abnormal returns that account for general market movements at a half-hour resolution. We consider three types of events: (i) positive nomination events refer to the official announcements of a firm executive's or director's nomination to the cabinet; (ii) negative nomination events refer to the official announcements of nominations indicating that a firm executive or director – previously perceived as candidates – was actually not nominated; (iii) expectation shock events refer to large positive and negative shifts in appointment probabilities. For both nomination events, we use the precise timing of the official announcements. We rely on prediction markets to identify the set of probable nominees and the large and sudden shifts in the expected appointment probability. We sample the nomination timestamps and the prediction market data to the same half-hour resolution as the stock market data. We identify executives and directors through mandatory insider filings with the Security and Exchange Commission (SEC).

We find that stock market participants value firms' materialized connections to the cabinet: For the 21 positive nomination events we detect a statistically significant average abnormal return of 0.7 percent in the relevant trading half hour. The nominations are partly anticipated and entail an average increase in the expected appointment probability of 9.7 percentage points. We find a statistically insignificant negative effect of -0.07 percent (in abnormal returns) for the 63 negative nomination events. This finding echoes the observation that market participants largely anticipate when firm executives or directors fail to receive the nomination and that the average appointment probability only decreases by 1.3

<sup>3.</sup> Associated Press Newswires, "AP News in Brief at 11:04 p.m. EST," December 7, 2020.

percentage point. Taking our estimated abnormal returns and the underlying probability changes in the sample seriously, the true value of a fully surprising nomination is equivalent to between 5.4 to 7.6 percent. This value is substantially larger than the value of political connections reported in the previous literature that cannot quantify the extent to which the political connections are anticipated.

Prediction markets are only useful in defining the set of probable nominees and expectation shocks if they convey accurate and immediate information on the appointment probability (see Wolfers and Zitzewitz 2006 on equating prediction market prices with event probabilities). We show that they indeed react promptly and in the expected direction to appointment announcements. This finding reinforces the usefulness of political betting markets. This is also backed by an industry perspective on the market participants. According to the founder of the largest prediction market, many of its users are active in the financial industry: "They have to be plugged in for their day jobs on, say, who's going to have control of Congress, or who's going to be the next Supreme Court appointee. These people will follow events."<sup>4</sup>

The expectation shock events paint a more nuanced picture than the appointment results. For 148 large and sudden increases in the expected appointment probability of on average 19.7 percentage points, we observe statistically significant positive abnormal returns of 0.3 percent. This result reinforces the notion that connections to the cabinet are valuable. The rescaled effect of 1.4 percent is lower than the estimates for the nomination events and in a similar ballpark to estimates in the existing literature. Surprisingly, however, for 99 large and sudden decreases in the expected appointment probability of on average -16.6 percentage points, we find a statistically insignificant positive abnormal return of 0.09 percent.

We contribute to the literature on the value of the revolving door and to the literature on the usefulness of prediction markets for explaining financial market reactions. By marrying these two strands of the literature, we can nail down the true value of the revolving door.

The literature on the value of revolving door investigates if and how firms benefit from people moving between the private and public sectors (for a review, see Luechinger and Moser 2023). It is part of a broader literature on the value of political connections (e.g., Fisman 2001; Faccio 2006; Brown and Huang 2020; Child et al. 2021). Most relevant for

<sup>4.</sup> Founder of PredictIt cited in Financial Times, "Prediction markets tipped for new growth as US trader interest mounts," July 8, 2024.

us are papers analyzing transitions from the private sector to the executive branch in the United States.<sup>5</sup>

Luechinger and Moser (2014) show that firms' stock prices react positively to the official announcement of the nomination of their former employees, executives, and directors to senior roles at the Department of Defense. The value of the revolving door for these political appointments amounts – for one- and two-day abnormal returns – to about 0.8 percent. Houston and Ferris (2015) confirm these results for political appointments to a broader set of agencies with three-day abnormal returns of around 0.7 percent. The self-appointment of Dick Cheney as Vice-president analyzed by Fisman et al. (2012) – among other types of political connections – also speaks to the value of the revolving door for one specific transition from one specific firm. In this case, it turns out to be insignificant. To the extent that such appointments are anticipated, the estimated value is a lower bound of the true value of the revolving door. Indeed, Luechinger and Moser (2014) report larger abnormal returns of between 1.2 to 1.3 percent for less anticipated announcements, which they classify by manually coding media reports. In this paper, we propose that prediction markets allow for a market-based quantification of the degree of anticipation.

By relying on prediction markets, we build on the literature studying how prediction markets can be informative about financial market reactions. This literature mainly focuses on U.S. Presidential elections<sup>6</sup> and exploits changes in the expected probability of election outcomes – as derived from prediction markets – to estimate unbiased partisan effects on aggregate economic indicators (Snowberg et al. 2007; 2011) and policy platform effects on individual firms (Knight 2006). Snowberg et al. (2007; 2011) report positive stock market effects of a Republican victory of 1.5-2 percent for the 2004 election and of 2-3 percent for a sample of historical elections since 1880. For the 2000 election, Knight (2006) documents differences in abnormal returns of 9 percentage points between firms that are – according to financial analysts – favored by either of the two candidates' policy platforms.

We contribute to the literature on the revolving door and political connections in two

<sup>5.</sup> Papers looking at movements from the public to the private sector in the U.S. context are, among others, Goldman et al. (2009), Blanes i Vidal et al. (2012), Luechinger and Moser (2014), Houston and Ferris (2015), and Emery and Faccio (2024).

<sup>6.</sup> Other related papers use the 2016 election to investigate which firms benefit from the Trump's tax policy stance (Wagner et al. 2018a; 2018b), or from connections to the candidates built by campaign contributions (Fink and Stahl 2020), but their empirical strategies do not rely on prediction markets.

ways. First, we offer an approach that sharpens the identification of the true value of the revolving door. This improvement rests on two pillars. On the one hand, we exploit prediction markets to account for the degree to which nominations are anticipated. On the other hand, we use intraday financial market data to substantially reduce the likelihood of confounding events. Second, we suggest alternative empirical strategies to measure the value of the revolving door by extending the events to runners up and large shifts in the nomination probability of all candidates. These extensions increase sample size and, hence, the efficiency of the estimator and render further credibility to the estimates of the value of the revolving door by considering two types of additional events. Both contributions rely on prediction markets tied to specific individuals and cabinet positions, which we are the first to explore. Thereby, we also contribute to the literature on prediction markets and demonstrate that these specific markets contain useful information and react promptly to important events.

#### 2 Empirical Approach and Data

Our empirical approach is an intraday event study. We estimate the stock price reactions to our appointment and expectation shock events (see MacKinlay 1997 on event studies). We consider raw and abnormal returns for connected firms in the trading half hours surrounding the events. For the raw returns, we use the log-difference of the closing price between a trading half hour and the preceding one. For the abnormal returns, we correct the raw returns for general comovements with concurrent market returns based on coefficients from firm-specific regressions of raw returns on market returns in the twelve months leading up to the Presidential elections. The returns for a trading half hour refer to a 30-minute interval during trading hours and to the time between the start of trading and the previous closing price otherwise. For all three event types, we report results for three event windows: average cumulative (abnormal) returns for the four trading half hours before the event, [-4, -1], average (abnormal) returns for the trading half hour of the event, [0], and the average cumulative (abnormal) returns for the trading half hour of the event and the subsequent three ones, [0, +3].

We are interested in stock price reactions of firms that are related to potential nominees for cabinet positions. As potential nominees we consider all individuals who were actively traded in prediction markets for cabinet positions. We deem a firm related to a potential nominee if she or he was one of its top executive or director in the five years prior to the relevant Presidential election.

We study stock market reactions to three types of events at the firm level. First, positive nomination events refer to the official announcement of the nomination of a firm executive or director to a cabinet position. We employ the precise timestamp of these announcements as the event time. Second, the negative nomination events also correspond to the official announcements but for firms connected to unsuccessful runners up. Third, we define expectation shock events as large shifts in the perceived probability that a firm executive or director is appointed for a cabinet position. To identify these large shifts, we rely on prediction markets. In our baseline estimates, we use positive and negative shifts of at least 10 percentage points within a trading half hour.

We complement our main analysis of stock price reactions with an analysis of how political betting markets react to these events. We report first-differenced probabilities for the three event windows as defined above. This allows us to determine how these events affect perceived appointment probabilities.

Our data includes information on positions and individuals, on individuals' corporate connections, on events, and on market outcomes. We consider all cabinet positions that the White House Cabinet page (accessed via the Internet Archive) listed from the start of a new administration to 180 days after its election. This gives us 26 positions for each of the two administrations excluding the Vice-president. For these positions, we select the corresponding prediction markets available on PredictIt. PredictIt was the main provider of political betting markets in the U.S. when the Trump I and Biden administrations formed their cabinets. We are interested in prediction markets that trade contracts related to individuals and cabinet positions. These contracts trade between 1 - 99¢ and pay out \$1 in case the individual is the holder of the position – not only the nominee – on a specified date. As such, the prices of these contracts reflect perceived appointment probabilities. For the 52 positions of the two cabinets, PredictIt operated 41 of these markets with a total of 551 contracts. We received minute-level trading volume and closing prices for transactions in these markets. We restrict the data to 188 contracts that traded sometime during their lifetime with an appointment probability of at least 20 percent and a cumulative trading volume of at least \$5,000 above this threshold.

To connect the likely contenders to firms, we manually search for them in the universe

of SEC filers and – if we find them – identify the connected firms by querying the SEC insider transaction forms. These are the SEC forms 3, 4, and 5, which reveal, among others, listed firms' executives and directors. We consider forms filed between 2004 and the relevant election to capture changes in insider status and any reported trading by existing insiders.<sup>7</sup> From these forms, we extract the firm name and link it to our stock data. We only consider firm connections if the potential cabinet nominee was one of its executives or directors in the five years prior to the election. We cross-check these connections with media reports. We have connections of 73 firms to 38 potential nominees.

To time the positive and negative nomination events, we use the timestamp of the official nomination announcement. Specifically, for the Trump I administration we rely on the transition team and administration emails, which we received from the American Presidency Project, and for the Biden administration, we rely on Tweets from Biden or the White House. To time the expectation shock events, we select the trading half hour during which the probability of a firm executive or director entering the cabinet increases by at least 10 percentage points with a prediction market volume exceeding \$1,000.

While the probabilities underlying our events refer to the firm level, the prediction market data are at the level of positions and individuals. Because firms can have several executives or directors in the pool of potential nominees and/or nominees in the race for several positions, we need to aggregate the prediction market probabilities over multiple contracts. For firms connected to one potential nominee for one position, we can directly use the probabilities from the relevant contract. However, a firm can be connected to one potential nominee for multiple positions or multiple potential nominees for the same position. Because an individual can only serve in one position at a time and because there can only be one individual per position, we simply sum the probabilities across different positions. In these cases, we assume that the appointments are independent and use the complement of the probability that none of the nominees is appointed.<sup>8</sup> We do not have more complicated cases. For each firm we consider events in the time period from six hours after both CNN

<sup>7.</sup> Theoretically, we might miss insiders who joined the firm prior to 2004, stayed with the firm, and never reported any insider trading until 2016 or 2020.

<sup>8.</sup> If two firm executives or directors i = A, B vie for two different positions, we calculate the probability that a firm executive or director is appointed as  $P = 1 - (1 - p_A) \times (1 - p_B)$ , where,  $p_i$  is the probability that *i* is appointed.

and Fox News have called the election up to and including the firm's last negative nomination event – or if it has one – its first positive nomination event.

Our two main variables of interest are (abnormal) stock returns of firms connected to potential cabinet nominees and changes in the corresponding appointment probability. The split- and dividend-adjusted stock price and stock index (S&P 500) data come from FirstRate Data. The prediction market prices are from PredictIt. We also obtain stock market and prediction market trading volumes from the same sources. The raw data from both sources are one-minute-level transaction data. We aggregate both data to the same trading half hours. We always consider the same firm-event observations for both the stock and the prediction markets and we always keep the firm-event sample constant across the reported time periods (i.e., [-4, -1], [0], and [0, +3]). We exclude events for clearly illiquid stocks with zero trading volume in the trading half hour of the event. We also limit the sample to events for which relevant prediction market contracts existed for at least four trading half hours before to the event to ensure consistency across the three event windows.

#### 3 Results

We now turn to our main results. Table 1 is most closely related to the existing literature but goes beyond it by using intraday stock market and prediction market data. We find positive stock market responses to political nominations. In the trading half hour of the nominations, [0], stocks increase by 0.66 percent and 0.74 percent for raw returns and abnormal returns. For the two trading hours before to the event, [-4, -1], abnormal stock returns are not statistically significant, but raw returns are statistically significantly negative. For the two trading hours encompassing the event, [0, +3], the stock returns remain clearly positive and significant. These estimates are very close to previous estimates based on daily stock data for the revolving door in the U.S. (Luechinger and Moser 2014; Houston and Ferris 2015), indicating that investors instantly price in the value of political connections. Panel A in Figure 2 corroborates this argument: Out of eight trading half hours, only the event half hour yields statistically significant returns.

Table 1 and Panel A in Figure 2 also demonstrate that nominations are on average strongly anticipated and yet the nomination probability jumps at the time of the event by 9.71 percentage points. Obviously, the existing literature has been aware of this caveat. One proposed solution involved a qualitative measure for the degree of anticipation derived from news articles. In this paper, we account for the degree of anticipation by using a precise quantitative measure. We combine the information from the stock and prediction markets to compute the true value of the revolving door. Specifically, we take the ratio of the average (abnormal) return to the average change in appointment probability. The value of fully surprising nominations thus amounts to 6.8 percent and 7.6 percent for raw returns and abnormal returns.

	]	Observations		
	[-4,-1]	[0]	[0,+3]	(clusters)
(Cumulative) Returns	-0.0020	0.0066	0.0041	21 (8)
	$(0.0007)^{***}$	$(0.0031)^{**}$	$(0.0021)^*$	
	$[0.0938]^*$	[0.2656]	[0.2578]	
(Cumulative) Abnormal Returns	0.0007	0.0074	0.0039	21 (8)
	(0.0010)	$(0.0029)^{**}$	$(0.0018)^{**}$	
	[0.7695]	[0.1172]	[0.1680]	
Appointment Probability Change	-0.0157	0.0971	0.0933	21 (8)
	$(0.0066)^{**}$	$(0.0241)^{***}$	$(0.0256)^{***}$	
	[0.3555]	$[0.0977]^*$	[0.1250]	

Table 1. Positive Nomination Events

Notes: The table reports intraday announcement effects to nominations of firm executives and directors to the cabinets of the Trump I and Biden administrations. We consider all connections within the five years prior to the respective election and identify them through SEC insider filings. We restrict our sample to events for which we observe non-zero stock trading volumes in the trading half hour of the event and for which the relevant prediction market contracts existed at least four trading half hours before the event. We consider financial market reactions for three different event windows based on trading half hours: four trading half hours before the event [-4, -1], the trading half hour of the event [0], and four trading half hours starting with the event [0, +3]. We report raw returns and abnormal returns, both in log-differences, whereas we compute abnormal returns using a simple market model (S&P500) estimated for the trading year before the respective election. We also show changes in appointment probabilities derived from prediction markets for the same event windows. We report conventional standard errors in parentheses and wild-cluster-bootstrapped p-values at the level of the nominees in brackets. \*\*\*, \*\*, \* is statistically significant at the 1, 5, and 10 percent level.



Figure 2. Event Study Plots of Returns and Appointment Probability (with 95 Percent Confidence Intervals)

According to Table 2, stock prices and appointment probabilities decrease only moderately for runners up in response to nomination announcements. We estimate statistically insignificant raw returns and abnormal returns at time [0] of -0.05 and -0.07 percent, respectively. The appointment probability decreases by only 1.30 percentage points. Panel B in Figure 2 shows that markets have a very strong anticipation of runners up falling short of a cabinet nomination. Immediately prior to the nomination, the prediction markets indicate a cabinet nomination probability of around 10 percent on average. Nevertheless, if readers are willing to leverage the weak stock returns, the estimates from the two markets imply a substantial value of the revolving door of 3.8 and 5.4 percent for raw and abnormal returns, which is comparable to the positive nomination events.

		Event Winde	ows	Observations
	[-4,-1]	[0]	[0,+3]	(clusters)
(Cumulative) Returns	0.0009	-0.0005	-0.0005	63(32)
	(0.0013)	(0.0012)	(0.0012)	
	[0.5100]	[0.7000]	[0.7170]	
(Cumulative) Abnormal Returns	0.0011	-0.0007	-0.0010	63(32)
	(0.0012)	(0.0010)	(0.0011)	
	[0.4390]	[0.4610]	[0.3970]	
Appointment Probability Change	-0.0005	-0.0130	-0.0122	63(32)
	(0.0028)	$(0.0050)^{**}$	$(0.0049)^{**}$	
	[0.9220]	[0.0130]**	$[0.0070]^{***}$	

Table 2. Negative Nomination Events

Notes: The table reports intraday announcement effects of nominations to the cabinets of the Trump I and Biden administrations for firms connected to unsuccessful runners up. We consider all connections of firm executives and directors within the five years prior to the respective election and identify them through SEC insider filings. We restrict our sample to events for which we observe non-zero stock trading volumes in the trading half hour of the event and for which the relevant prediction market contracts existed at least four trading half hours before the event. We consider financial market reactions for three different event windows based on trading half hours: four trading half hours before the event [-4, -1], the trading half hour of the event [0], and four trading half hours starting with the event [0, +3]. We report raw returns and abnormal returns, both in log-differences, whereas we compute abnormal returns using a simple market model (S&P500) estimated for the trading year before the respective election. We also show changes in appointment probabilities derived from prediction markets for the same event windows. We report conventional standard errors in parentheses and wild-cluster-bootstrapped p-values at the level of the nominees in brackets. \*\*\*, \*\*\*, \* is statistically significant at the 1, 5, and 10 percent level.

We turn to the expectation shock events with appointment probability changes of at least 10 percentage points with a prediction market volume exceeding \$1,000 in Table 3. Panels A and B depict the results for the positive and negative expectation shock events. For the positive expectation shock events, the appointment probability jumps by 19.67 percentage points on average from around 35 to around 55 percent (see Panel C in Figure 2). Thus, the perceived appointment probability increases by around twice as much as in the case of the positive nomination events, but many races remain wide open even after such a probability surge.

The appointment probability jumps are accompanied by large positive stock price reactions of 0.33 percent for the raw returns and 0.27 percent for the abnormal returns in the event half hour [0]. While these stock price reactions persist after the jumps, we also find substantially smaller and statistically weaker reactions just prior to the jump in appointment probability. Taking together the estimates from the stock and prediction markets for positive expectation shock events, we calculate a true value of the revolving door of 1.7 percent and 1.4 percent for raw and abnormal returns. These estimates are substantially smaller than the ones for the nomination events, but the estimates are still about twice as large as the estimates for the value of U.S. political appointments of 0.7 to 0.8 percent ignoring anticipation effects (Luechinger and Moser 2014; Houston and Ferris 2015). The estimates are also slightly higher than previous estimates of 1.2 to 1.3 percent for a subset of surprising political appointments (Luechinger and Moser 2014).

Panel B of Table 3 and Panel D of Figure 2 show our findings for the negative expectation shock events with an average appointment probability drop of 16.62 percentage points. Surprisingly, we detect small positive stock price reactions that are statistically insignificant for the expectation shock half hour [0] and weakly statistically significant for the two trading hours encompassing the expectation shock event [0, +3]. We can offer an observation but not necessarily an explanation for these results. The appointment probability changes are on average more volatile than the other event types, with positive changes immediately preceding and succeeding the probability drop in the event trading half hour.

		Event Windows		
	[-4, -1]	[0]	[0,+3]	(clusters)
Panel A. Positive Expectation Shocks				
(Cumulative) Returns	0.0010	0.0033	0.0042	148(30)
	$(0.0006)^*$	$(0.0010)^{***}$	$(0.0012)^{***}$	
	[0.2460]	$[0.0290]^{**}$	$[0.0270]^{**}$	
(Cumulative) Abnormal Returns	0.0010	0.0027	0.0024	148(30)
	$(0.0005)^*$	$(0.0009)^{***}$	$(0.0011)^{**}$	
	[0.1990]	$[0.0340]^{**}$	[0.1600]	
Appointment Probability Change	0.0083	0.1967	0.1842	148(30)
	(0.0109)	$(0.0094)^{***}$	$(0.0115)^{***}$	
	[0.6310]	$[0.0000]^{***}$	$[0.0000]^{***}$	
Panel B. Negative Expectation Shocks				
(Cumulative) Returns	0.0003	0.0010	0.0025	99(29)
	(0.0013)	(0.0014)	$(0.0015)^*$	
	[0.8070]	[0.4760]	$[0.0830]^*$	
(Cumulative) Abnormal Returns	-0.0004	0.0009	0.0024	99(29)
	(0.0013)	(0.0013)	$(0.0014)^*$	
	[0.7410]	[0.5030]	$[0.0450]^{**}$	
Appointment Probability Change	0.0240	-0.1662	-0.1350	99(29)
	$(0.0116)^{**}$	$(0.0095)^{***}$	$(0.0105)^{***}$	
	$[0.0980]^*$	$[0.0000]^{***}$	$[0.0000]^{***}$	

#### Table 3. Expectation Shock Events

Notes: The table reports intraday effects to expectation shock events for firms connected to potential and eventual nominees to the cabinets of the Trump I and Biden administrations. We consider positive and negative shocks to the appointment probability of at least 10 percentage points with a prediction market volume exceeding 1,000. We include all connections of firm executives and directors within the five years prior to the respective election and identify them through SEC insider filings. We restrict our sample to events for which we observe non-zero stock trading volumes in the trading half hour of the event and for which the relevant prediction market contracts existed at least four trading half hours before the event. We consider financial market reactions for three different event windows based on trading half hours: four trading half hours before the event [-4, -1], the trading half hour of the event [0], and four trading half hours starting with the event [0, +3]. We report raw returns and abnormal returns, both in log-differences, whereas we compute abnormal returns using a simple market model (S&P500) estimated for the trading year before the respective election. We also show changes in appointment probabilities derived from prediction markets for the same event windows. We report conventional standard errors in parentheses and wildcluster-bootstrapped p-values at the level of the potential nominees in brackets. \*\*\*, \*\*, \* is statistically significant at the 1, 5, and 10 percent level.

We subject all estimates to three robustness tests, using a constant sample composition and focusing on event window [0] for each criterion. We restrict our sample to singlecontract firms, to stocks with sufficient liquidity during the event trading half hour, and to observations between the 5th and 95th percentile of the (abnormal) returns distribution. Additionally, for the expectation shock events, we also consider variations in the thresholds of the appointment probability changes.

First, as explained in section 2, firms can have several executives or directors in the pool of potential nominees and/or nominees in the race for several positions. For these firms, we aggregate the prediction market probabilities over multiple contracts with some reasonable assumptions. In the first robustness test, we abstain from taking these assumptions and focus on firm-events for which we can derive appointment probabilities from a single contract.

Second, in another sensitivity analysis, we apply a standard liquidity measure in the finance literature by computing the Amihud (2002) measure and drop the 5 percent least liquid firm-events. This measure is not defined for clearly illiquid firm-events with zero trading volume, which we already exclude in the baseline estimates.

Third, to avoid that extreme (abnormal) return values drive our results, in our trimmed sample, we exclude the highest and lowest 5 percent of the (abnormal) return distribution. Given that some of our samples are relatively small, we also ensure that the number of dropped firm-event observations is equal at both ends of the distribution.

Finally, there is a trade-off between the economic relevance of a jump and the estimation efficiency. Thus, we offer empirical results for 5 and 15 percentage points thresholds in addition to our baseline expectation shocks of 10 percentage points.

According to Tables A1, A2, A3 and A4 in the Appendix, the results for the first three robustness tests yield very similar results to our baseline estimates. In Table A1 for the positive nomination events, the point estimates for single-contract firms are slightly higher and for the trimmed sample slightly lower than the baseline. Furthermore, in Table A2 for the negative nomination events, all results remain statistically insignificant. Again, in Tables A3 and A4 for the positive and negative expectation shock events, the results hardly differ from the baseline estimates.

Tables A5 and A6 depict estimates for expectation shock events of different magnitudes. In both tables, Panel C shows that average probability changes indeed mechanically increase with the threshold. In general, the number of observations increases for lower thresholds. In Table A5 for positive expectation shock events, (abnormal) stock returns tend to be larger for higher thresholds of 10 and 15 percentage points than for the lower threshold of 5 percentage points in the event window [0]. For the event window [0, +3], these (abnormal) returns seem to increase monotonically. In Table A6 for the negative expectation shock events, the raw returns for small negative expectation shocks become statistically significant in event window [0].

### Conclusions

Political connections via the revolving door remain profitable in the United States. This paper complements the existing literature in important ways: We offer a systematic and quantitative approach to deal with the caveat of partly anticipated events. Our empirical results clearly show that anticipation matters. We find a substantially larger value for the revolving door than the existing literature.

By using intraday prediction and stock market data, we can sharpen identification of announcement effects and document that both markets react instantly to news related to political appointments. We broaden the scope of the types of events by also considering runners up and jumps in the appointment probability to the cabinet. Since it is nearly fully anticipated that runners up fall short of a nomination and since negative probability jumps are more volatile, the most promising extension in our context are positive probability jumps. The results from positive expectation shocks align with the findings from the announcement of nominations. Overall, our empirical results illustrate the power of using intraday data and linking stock and prediction market data to assess the true value of the revolving door.

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## A Appendix

	Event Windows			Observations
	[-4,-1]	[0]	[0,+3]	(clusters)
Panel A. (Cumulative) Returns				
Baseline	-0.0020	0.0066	0.0041	21 (8)
	$(0.0007)^{***}$	$(0.0031)^{**}$	$(0.0021)^*$	
	$[0.0938]^*$	[0.2656]	[0.2578]	
Single-Contract Firms	-0.0024	0.0087	0.0060	17~(6)
	$(0.0007)^{***}$	$(0.0035)^{**}$	$(0.0022)^{**}$	
	$[0.0156]^{**}$	[0.2031]	$[0.0781]^*$	
Liquid Stocks	-0.0022	0.0069	0.0044	20(8)
	$(0.0007)^{***}$	$(0.0032)^{**}$	$(0.0021)^*$	
	$[0.0703]^*$	[0.2773]	[0.2578]	
Trimmed Sample	-0.0019	0.0048	0.0040	19(8)
	$(0.0007)^{**}$	$(0.0018)^{**}$	$(0.0022)^*$	
	[0.1719]	[0.1680]	[0.2422]	
Panel B. (Cumulative) Abnormal Returns				
Baseline	0.0007	0.0074	0.0039	21 (8)
	(0.0010)	$(0.0029)^{**}$	$(0.0018)^{**}$	
	[0.7695]	[0.1172]	[0.1680]	
Single-Contract Firms	0.0007	0.0096	0.0059	17~(6)
	(0.0012)	$(0.0033)^{**}$	$(0.0019)^{***}$	
	[0.8906]	$[0.0469]^{**}$	$[0.0469]^{**}$	
Liquid Stocks	0.0005	0.0078	0.0043	20 (8)
	(0.0010)	$(0.0030)^{**}$	$(0.0019)^{**}$	
	[0.8945]	[0.1133]	[0.1719]	
Trimmed Sample	0.0008	0.0056	0.0037	19(8)
	(0.0011)	$(0.0015)^{***}$	$(0.0020)^{*}$	
	[0.7305]	$[0.0352]^{**}$	[0.1602]	

Table A1. Robustness - Positive Nomination Events

Notes: The table reports intraday announcement effects to nominations of firm executives and directors to the cabinets of the Trump I and Biden administrations. The first row of Panels A and B reproduces the baseline results for (cumulative) (abnormal) returns (see Table 1 for details). Single-contract firms denote observations of firms connected to a single prediction market contract at the time of the event. Liquid refers to a sample without the 5 percent least liquid firm-events according to Amihud (2002). The trimmed sample drops the observations for the firm-events with the 5 percent lowest and highest (abnormal) returns. We report conventional standard errors in parentheses and wild-cluster-bootstrapped p-values at the level of the nominees in brackets. \*\*\*, \*\*, \* is statistically significant at the 1, 5, and 10 percent level.

	Ev	vent Windo	ws	Observations
	[-4,-1]	[0]	[0,+3]	(clusters)
Panel A. (Cumulative) Returns				
Baseline	0.0009	-0.0005	-0.0005	63(32)
	(0.0013)	(0.0012)	(0.0012)	
	[0.5100]	[0.7000]	[0.7170]	
Single-Contract Firms	0.0004	-0.0007	-0.0002	54(28)
	(0.0011)	(0.0014)	(0.0013)	
	[0.7960]	[0.6300]	[0.8940]	
Liquid Stocks	0.0011	-0.0006	-0.0007	60(32)
	(0.0013)	(0.0012)	(0.0012)	
	[0.4680]	[0.7020]	[0.6380]	
Trimmed Sample	0.0007	0.0003	-0.0004	57(29)
	(0.0012)	(0.0007)	(0.0012)	
	[0.6120]	[0.7920]	[0.7530]	
Panel B. (Cumulative) Abnormal Returns				
Baseline	0.0011	-0.0007	-0.0010	63(32)
	(0.0012)	(0.0010)	(0.0011)	
	[0.4390]	[0.4610]	[0.3970]	
Single-Contract Firms	0.0005	-0.0010	-0.0010	54 (28)
	(0.0010)	(0.0011)	(0.0012)	
	[0.6820]	[0.3960]	[0.4760]	
Liquid Stocks	0.0012	-0.0008	-0.0014	60 (32)
	(0.0013)	(0.0010)	(0.0012)	
	[0.4090]	[0.4270]	[0.3190]	
Trimmed Sample	0.0016	-0.0003	-0.0012	57(29)
	(0.0013)	(0.0006)	(0.0011)	
	[0.2910]	[0.7090]	[0.2840]	

Table A2. Robustness - Negative Nomination Events

Notes: The table reports intraday announcement effects of nominations to the cabinets of the Trump I and Biden administrations for firms connected to unsuccessful runners up. The first row of Panels A and B reproduces the baseline results for (cumulative) (abnormal) returns (see Table 2 for details). Single-contract firms denote observations of firms connected to a single prediction market contract at the time of the event. Liquid refers to a sample without the 5 percent least liquid firm-events according to Amihud (2002). The trimmed sample drops the observations for the firm-events with the 5 percent lowest and highest (abnormal) returns. We report conventional standard errors in parentheses and wild-cluster-bootstrapped p-values at the level of the nominees in brackets. \*\*\*, \*\*, \* is statistically significant at the 1, 5, and 10 percent level.

	Event Windows			Observations
	[-4,-1]	[0]	[0,+3]	(clusters)
Panel A. (Cumulative) Returns				
Baseline	0.0010	0.0033	0.0042	148(30)
	$(0.0006)^*$	$(0.0010)^{***}$	$(0.0012)^{***}$	
	[0.2460]	$[0.0290]^{**}$	$[0.0270]^{**}$	
Single-Contract Firms	0.0005	0.0032	0.0051	117(26)
	(0.0006)	$(0.0011)^{***}$	$(0.0012)^{***}$	
	[0.6250]	[0.1490]	$[0.0100]^{***}$	
Liquid Stocks	0.0008	0.0035	0.0043	141 (29)
	(0.0006)	$(0.0010)^{***}$	$(0.0012)^{***}$	
	[0.3490]	$[0.0340]^{**}$	$[0.0200]^{**}$	
Trimmed Sample	0.0009	0.0030	0.0035	134(29)
	(0.0006)	$(0.0005)^{***}$	$(0.0010)^{***}$	
	[0.3370]	$[0.0010]^{***}$	$[0.0660]^*$	
Panel B. (Cumulative) Abnormal Returns				
Baseline	0.0010	0.0027	0.0024	148(30)
	$(0.0005)^*$	$(0.0009)^{***}$	$(0.0011)^{**}$	
	[0.1990]	$[0.0340]^{**}$	[0.1600]	
Single-Contract Firms	0.0006	0.0025	0.0032	117(26)
	(0.0005)	$(0.0010)^{**}$	$(0.0011)^{***}$	
	[0.4930]	[0.1580]	$[0.0820]^*$	
Liquid Stocks	0.0008	0.0029	0.0025	141 (29)
	(0.0005)	$(0.0010)^{***}$	$(0.0011)^{**}$	
	[0.2830]	$[0.0360]^{**}$	[0.1560]	
Trimmed Sample	0.0010	0.0022	0.0019	134(27)
	(0.0006)*	$(0.0004)^{***}$	$(0.0010)^*$	
	[0.2100]	$[0.0040]^{***}$	[0.2540]	

Table A5. Robustness - Positive Expectation Shock Events	Table A3.	Robustness -	Positive	Expectation	Shock	Events
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Notes: The table reports intraday effects to expectation shock events for firms connected to potential and eventual nominees to the cabinets of the Trump I and Biden administrations. The first row of Panels A and B reproduces the baseline results for (cumulative) (abnormal) returns (see Table 3 for details). Single-contract firms denote observations of firms connected to a single prediction market contract at the time of the event. Liquid refers to a sample without the 5 percent least liquid firm-events according to Amihud (2002). The trimmed sample drops the observations for the firm-events with the 5 percent lowest and highest (abnormal) returns. We report conventional standard errors in parentheses and wild-cluster-bootstrapped p-values at the level of the nominees in brackets. \*\*\*, \*\*, \* is statistically significant at the 1, 5, and 10 percent level.

	I	Event Wind	lows	Observations
	[-4, -1]	[0]	[0,+3]	(clusters)
Panel A. (Cumulative) Returns				
Baseline	0.0003	0.0010	0.0025	99 (29)
	(0.0013)	(0.0014)	$(0.0015)^{*}$	
	[0.8070]	[0.4760]	$[0.0830]^*$	
Single-Contract Firms	0.0012	0.0018	0.0032	85 (26)
	(0.0009)	(0.0016)	$(0.0016)^*$	
	[0.3540]	[0.1520]	$[0.0300]^{**}$	
Liquid Stocks	0.0002	0.0010	0.0023	94 (29)
	(0.0014)	(0.0015)	(0.0015)	
	[0.8840]	[0.4960]	[0.1240]	
Trimmed Sample	0.0007	0.0003	0.0022	89 (28)
	(0.0009)	(0.0006)	(0.0014)	
	[0.5800]	[0.6010]	[0.1480]	
Panel B. (Cumulative) Abnormal Returns				
Baseline	-0.0004	0.0009	0.0024	99(29)
	(0.0013)	(0.0013)	$(0.0014)^*$	
	[0.7410]	[0.5030]	$[0.0450]^{**}$	
Single-Contract Firms	0.0006	0.0016	0.0030	85(26)
	(0.0009)	(0.0015)	$(0.0015)^*$	
	[0.6790]	[0.1570]	$[0.0080]^{***}$	
Liquid Stocks	-0.0005	0.0009	0.0022	94(29)
	(0.0014)	(0.0014)	(0.0014)	
	[0.6710]	[0.5230]	$[0.0980]^*$	
Trimmed Sample	-0.0000	0.0003	0.0016	89 (28)
	(0.0009)	(0.0005)	$(0.0009)^{*}$	
	[0.9990]	[0.4590]	$[0.0580]^*$	

Table A4. Robustness - Negative Expectation Shock Events

Notes: The table reports intraday effects to expectation shock events for firms connected to potential and eventual nominees to the cabinets of the Trump I and Biden administrations. The first row of Panels A and B reproduces the baseline results for (cumulative) (abnormal) returns (see Table 3 for details). Single-contract firms denote observations of firms connected to a single prediction market contract at the time of the event. Liquid refers to a sample without the 5 percent least liquid firm-events according to Amihud (2002). The trimmed sample drops the observations for the firm-events with the 5 percent lowest and highest (abnormal) returns. We report conventional standard errors in parentheses and wild-cluster-bootstrapped p-values at the level of the nominees in brackets. \*\*\*, \*\*, \* is statistically significant at the 1, 5, and 10 percent level.

	]	Event Window	s	Observations
	[-4,-1]	[0]	[0,+3]	(clusters)
Panel A. (Cumulative) Returns				
5 p.p. Positive Expectation Shocks	0.0010	0.0018	0.0027	307(35)
	$(0.0005)^*$	$(0.0006)^{***}$	$(0.0008)^{***}$	
	[0.1620]	[0.1180]	$[0.0850]^*$	
10 p.p. Positive Expectation Shocks (Baseline)	0.0010	0.0033	0.0042	148(30)
	$(0.0006)^*$	$(0.0010)^{***}$	$(0.0012)^{***}$	
	[0.2460]	$[0.0290]^{**}$	[0.0270]**	
15 p.p. Positive Expectation Shocks	0.0013	0.0034	0.0053	80(21)
	$(0.0007)^*$	$(0.0015)^{**}$	$(0.0019)^{***}$	
	[0.4180]	$[0.0610]^*$	$[0.0310]^{**}$	
Panel B. (Cumulative) Abnormal Returns				
5 p.p. Positive Expectation Shocks	0.0011	0.0014	0.0012	307(35)
	$(0.0005)^{**}$	$(0.0006)^{**}$	(0.0008)	
	[0.2000]	[0.2240]	[0.3490]	
10 p.p. Positive Expectation Shocks (Baseline)	0.0010	0.0027	0.0024	148(30)
	$(0.0005)^*$	$(0.0009)^{***}$	$(0.0011)^{**}$	
	[0.1990]	$[0.0340]^{**}$	[0.1600]	
15 p.p. Positive Expectation Shocks	0.0012	0.0027	0.0034	80 (21)
	(0.0007)	$(0.0014)^*$	$(0.0018)^*$	
	[0.3950]	$[0.0680]^*$	[0.1690]	
Panel C. Appointment Probability Change				
5 p.p. Positive Expectation Shocks	0.0339	0.1289	0.1209	307(35)
	$(0.0110)^{***}$	$(0.0059)^{***}$	$(0.0077)^{***}$	
	[0.7290]	$[0.0000]^{***}$	$[0.0000]^{***}$	
10 p.p. Positive Expectation Shocks (Baseline)	0.0083	0.1967	0.1842	148(30)
	(0.0109)	$(0.0094)^{***}$	$(0.0115)^{***}$	
	[0.6310]	$[0.0000]^{***}$	$[0.0000]^{***}$	
15 p.p. Positive Expectation Shocks	0.0070	0.2662	0.2481	80 (21)
	(0.0156)	$(0.0130)^{***}$	$(0.0174)^{***}$	
	[0.8300]	$[0.0000]^{***}$	$[0.0000]^{***}$	

#### Table A5. Robustness - Different Thresholds for Positive Expectation Shock Events

Notes: The table reports intraday effects to positive expectation shock events for various jumps in the appointment probability. In addition to the baseline threshold of at least 10 percentage points, we also report thresholds of at least 5 and 15 percentage points. The table depicts effects for (cumulative) (abnormal) returns and appointment probability changes for firms connected to potential and eventual nominees to the cabinets of the Trump I and Biden administrations. For details, see Table 3. We report conventional standard errors in parentheses and wild-cluster-bootstrapped p-values at the level of the nominees in brackets. \*\*\*, \*\*, \* is statistically significant at the 1, 5, and 10 percent level.

	]	Event Window	s	Observations
	[-4,-1]	[0]	[0,+3]	(clusters)
Panel A. (Cumulative) Returns				
5 p.p. Negative Expectation Shocks	-0.0000	0.0010	0.0015	311 (37)
	(0.0006)	$(0.0006)^*$	$(0.0008)^*$	
	[0.9940]	$[0.0990]^*$	[0.2140]	
10 p.p. Negative Expectation Shocks (Baseline)	0.0003	0.0010	0.0025	99(29)
	(0.0013)	(0.0014)	$(0.0015)^*$	
	[0.8070]	[0.4760]	$[0.0830]^*$	
15 p.p. Negative Expectation Shocks	-0.0006	-0.0011	0.0028	37(22)
	(0.0030)	(0.0021)	(0.0031)	
	[0.7240]	[0.7280]	[0.3880]	
Panel B. (Cumulative) Abnormal Returns				
5 p.p. Negative Expectation Shocks	-0.0001	0.0006	0.0004	311 (37)
	(0.0006)	(0.0006)	(0.0007)	
	[0.9140]	[0.3320]	[0.7470]	
10 p.p. Negative Expectation Shocks (Baseline)	-0.0004	0.0009	0.0024	99(29)
	(0.0013)	(0.0013)	$(0.0014)^*$	
	[0.7410]	[0.5030]	$[0.0450]^{**}$	
15 p.p. Negative Expectation Shocks	-0.0014	-0.0012	0.0021	37(22)
	(0.0030)	(0.0019)	(0.0030)	
	[0.3960]	[0.6170]	[0.5310]	
Panel C. Appointment Probability Change				
5 p.p. Negative Expectation Shocks	0.0477	-0.0966	-0.0778	311 (37)
	$(0.0081)^{***}$	$(0.0041)^{***}$	$(0.0052)^{***}$	
	$[0.0000]^{***}$	$[0.0000]^{***}$	$[0.0000]^{***}$	
10 p.p. Negative Expectation Shocks (Baseline)	0.0240	-0.1662	-0.1350	99(29)
	$(0.0116)^{**}$	$(0.0095)^{***}$	$(0.0105)^{***}$	
	$[0.0980]^*$	$[0.0000]^{***}$	$[0.0000]^{***}$	
15 p.p. Negative Expectation Shocks	0.0668	-0.2516	-0.1897	37(22)
	$(0.0246)^{**}$	$(0.0179)^{***}$	$(0.0232)^{***}$	
	$[0.0060]^{***}$	$[0.0000]^{***}$	$[0.0000]^{***}$	

Table A6. Robustness - Different Thresholds for Negative Expectation Shock Events

Notes: The table reports intraday effects to negative expectation shock events for various jumps in the appointment probability. In addition to the baseline threshold of at least 10 percentage points, we also report thresholds of at least 5 and 15 percentage points. The table depicts effects for (cumulative) (abnormal) returns and appointment probability changes for firms connected to potential and eventual nominees to the cabinets of the Trump I and Biden administrations. For details, see Table 3. We report conventional standard errors in parentheses and wild-cluster-bootstrapped p-values at the level of the nominees in brackets. \*\*\*, \*\*, \* is statistically significant at the 1, 5, and 10 percent level.