Electoral Uncertainty Over the Investment Lifecycle

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How do elections affect firms' growth strategies? Using administrative data on large capital expenditure projects in India (1995-2024) and exploiting over 149 staggered state elections, I apply a real options framework to show that pre-electoral uncertainty produces opposing effects on strategic behavior at different points over the investment lifecycle. In a stacked differences-in-differences design, I find firms delay new project announcements by 7% in the three months before elections but accelerate existing projects to completions by a similar magnitude. This divergent response—exercising options to delay versus accelerate—challenges the conventional view that political uncertainty uniformly depresses economic activity. After elections, firms appear to strategically reallocate capital spatially to curry favor with new leadership: with the incoming chief minister's home district receiving a disproportionate increase in new investment projects. These findings demonstrate that electoral cycles create distinct strategic logics for capital deployment, with firms using both timing and geography as tools for navigating political uncertainty and building access to power.

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1. Introduction

How do elections affect firms' growth strategies?

Management scholarship has shown how firms navigate political risks through various non-market strategies, like lobbying and campaign finance (Baron 1995; Hillman and Hitt 1999; Dorobantu et al. 2020). In this paper, I instead examine how political institutions, specifically elections, may shape core resource-allocation choices of the firm: the timing, scale, and geography of large capital expenditure projects that firms use to grow.

Macroeconomists have long noted how elections matter for economic development, conceptualizing a "political business cycle" (Nordhaus 1975; Alesina et al. 1993) where politicians seek to boost economic activity ahead of elections to increase re-election chances. But these accounts tend to focus on government spending and less on private entrepreneurial activity. More contemporary work across disciplines recognize how private investment behavior may too be influenced by electoral cycles, but in the opposite way: elections introduce political uncertainty which depresses investment activity, as firms adopt a wait-and-see approach (Julio and Yook 2012; Pástor and Veronesi 2013; Bloom 2014; Jens 2017; Baker et al. 2020).[1] Management scholars document similar patterns of elections dampening investment appetite, largely focusing on international FDI and M&A by MNCs around national elections (Vaaler 2008; Holburn and Zelner 2010; Lee 2018; Amore and Corina 2021).

Despite its theoretical and empirical soundness, this literature is limited in two ways.

The first concerns how investment is measured. Existing studies typically examine realized capital outlays—either aggregate fixed capital formation or firm-level capital expenditures (e.g. by commonly using CAPX from Compustat)—which treats investments as a single-stage outcome. But capital expenditure unfolds as a multi-stage process, from announcement to implementation to completion, often spanning several years. A rich literature across strategic management highlights critical decisions managers make along the investment lifecycle—from choosing *when* to announce investment intentions (Woolridge and Snow 1990; McGrath 1997; Miller and Folta 2002), *where* to locate them (Henisz and Delios 2001; Alcácer and Delgado 2016), and *how fast* to scale up (Forbes 2005; Pacheco-de Almeida and Zemsky 2007; Almeida et al. 2015). Political uncertainty may operate differently at each stage: managers may delay committing to new projects while simultaneously rushing to complete existing ones. By flattening investment into a single realized outcome, existing work cannot detect such divergent responses.

The second concerns timing. Most studies focus on the pre-election period as a proxy for political uncertainty, either by design or because coarse data aggregation collapses pre- and post-election periods together. But elections both create *and* resolve uncertainty. The post-election period reveals not just policy direction, but *who* holds power—information that may be strategically valuable for firms seeking to build relationships with new political leaders. By ignoring post-election behavior, scholars cannot adjudicate *what* precisely firms are uncertain about, or what information

[1] This channel is distinct from how private or state owned firms may modify its strategic behavior as a result of direct political pressure, like hiring workers before elections (e.g. Bertrand et al. (2018); Inoue (2020).)

they are waiting for when they delay investment decisions.

Overcoming these limitations requires investment-level data that tracks projects across their full lifecycle, in a setting with sufficient electoral variation to power causal inference. I assemble such data from India, combining a unique administrative dataset that captures the universe of large capital expenditure projects by private manufacturing firms from 1995–2024—tracking each project from announcement through implementation, stalls, and completion—with India's staggered state electoral calendar. India's 28 states hold elections to their respective legislative assemblies on different schedules, with between two and seven states going to polls each year at different points in the calendar. Scholars have used the constitutionally mandated five-year election cycle to study the causal effect of sub-national elections on a range of political and economic outcomes, including clientelistic fiscal targeting (Khemani 2004), state-financed agricultural credit (Cole 2009), teacher absenteeism (Davies 2025), and aggregate growth (Mishra et al. 2026). Overall, I exploit 149 state elections over my study period, enabling a stacked difference-in-differences design (Cengiz et al. 2019; Deshpande and Li 2019) that holds constant national-level institutions while examining how sub-national electoral cycles shape investment behavior.

This empirical setting has several advantages. First, by using administrative data on all registered firms, this analysis moves beyond studies that remain restricted to publicly listed companies with greater disclosure requirements. Second, sub-national elections provide clean counterfactuals: firms in non-election states serve as controls for firms in election states within the same time period, avoiding the identification challenge of national elections that assign all domestic firms to treatment simultaneously. Third, while holding constant the broader institutional environment, this setting provides rich variation across elections differing in competitiveness, incumbent performance, and political stakes—allowing me to probe mechanisms underlying the aggregate patterns.

Conceptually, I distinguish between strategic behavior before and after elections.

To generate predictions about how firms respond to electoral uncertainty in the pre-election period, i.e. leading up to polls, and at different stages of the investment lifecycle, I employ a real options framework originally developed to explain investment under general uncertainty (Bernanke 1983; Dixit and Pindyck 1994), which has since been adopted by management scholars to study a range of irreversible strategic choices by firms (Kogut and Kulatilaka 1994; Folta 1998; Tong and Reuer 2007; Trigeorgis and Reuer 2017). This perspective highlights that investments are not static decisions taken at once; firms can evolve their decisions dynamically over time as they learn more about market conditions. Dixit and Pindyck (1994) identify options available to firms—delay, defer, abandon, accelerate—that become more or less attractive as uncertainty waxes and wanes. For new investment projects not yet announced, electoral uncertainty increases the value of waiting: firms can delay commitment until the political landscape clarifies. But for existing investments already in progress, the calculus differs. Firms may accelerate project timelines to complete before a potentially new administration can impose delays, extract rents, or disrupt existing relationships with incumbent politicians. The real options framework thus predicts divergent pre-election

responses depending on where a project sits in its lifecycle.

In line with these predictions, I find that firms significantly reduce new investment announcements in the quarter leading up to state elections. The probability of observing any new project announcement falls by 4.2 percentage points (p=0.030), representing a 7% decline in investment initiation during periods of political uncertainty. Conversely, I document a significant acceleration in project completions: the probability of completing an existing project rises by 4.8 percentage points (10%; p=0.018) two quarters preceding elections. These patterns are consistent with a real options theory: firms delay irreversible commitments while accelerating projects already underway to avoid uncertain political realities.

As a test of the real options mechanism, I examine heterogeneity along two theoretically salient dimensions: uncertainty and irreversibility. First, I follow standard practice in this literature (e.g. Gulen and Ion (2016); Jens (2017)) and proxy for electoral uncertainty by comparing close versus decisive elections—using below-median margin of victory as a measure of closely-contested, and therefore more uncertain, races.[2] If political uncertainty drives investment behavior, effects should be stronger when election outcomes are less predictable. The results strongly support this prediction: new announcement declines 6.6 percentage points (p=0.036) before close elections, while the completion acceleration doubles to 9.5 percentage points (p=0.001).

Second, I examine heterogeneity by investment size, using project cost as a proxy for irreversibility, following canonical treatments by Dixit (1980) and Ghemawat and Del Sol (1998). Larger investments typically involve greater sunk costs, longer time horizons, and are more difficult to reverse—precisely the conditions under which real options theory predicts stronger delay incentives. Consistent with this logic, I find that the overall effect is concentrated in large projects (above-median cost of Rs 538 million), which exhibit a pronounced 6.9 percentage point decline in announcement probability during the election quarter itself (p=0.08). The completion acceleration, however, appears concentrated in smaller projects, likely reflecting that that the option to speed up is only possible for smaller, more nimble, projects, rather than larger projects which cannot feasibly be sped up.

These divergent patterns help clarify how political uncertainty affects overall firm activity. While managers' adopting a wait-and-see approach for new investment announcements ahead of elections is consistent with the broader literature's finding that political uncertainty dampens demand for entrepreneurial opportunities (Bloom et al. 2007; Julio and Yook 2012; Jens 2017), this pattern does not extend broadly to *all* economic activity. Managers may actually accelerate some economic activity also as a risk-mitigating reaction when faced with political uncertainty.

But what are firms uncertain about? While the literature on political uncertainty focuses on the role of *policy* uncertainty—with firms unsure what economic policies to expect from new leadership (Julio and Yook 2016; Baker et al. 2016; Gulen and Ion 2016)—I instead highlight the role of the political leaders themselves. In the Indian context, where state chief ministers have considerable

[2] Note: India holds single-member first part the post elections, so in each state election, multiple assembly constituencies elect their representatives.

discretion over economic policy and resource allocation within their states (Rudolph and Rudolph 2001; Murali 2017; Muralidharan 2024), electoral turnover can can dramatically reconfigure the political landscape. Given the personalist nature of Indian politics, where parties are often formed by and organized around charismatic leaders (Chhibber et al. 2014; Lee 2020), I examine whether firms strategically reallocate capital spatially to build relationships with new power brokers after electoral turnovers.

Using clean cases of chief minister (CM) turnover following state elections, I find striking evidence that firms concentrate new investment announcements in the home districts of incoming chief ministers. The probability that a new CM's home district receives any investment increases by 14 percentage points in the four years following turnover, with investment volumes rising by 26% and total rupee amounts more than doubling compared to other districts in the same state. This pattern suggests that by delaying investments prior to elections, firms are not simply waiting for policy uncertainty to resolve, but may be holding out to strategically position themselves to curry favor with new political leadership through geographically-targeted capital deployment.

Taken together, these findings paint a more complete picture of how elections shape firm behavior. Before elections, managers face uncertainty that produces divergent responses across the investment lifecycle: delay for new projects, acceleration for existing ones. After elections, firms actively reposition toward emerging political power. In this way I present a more comprehensive account of how firms respond to political uncertainty *ex ante*, and changed political realities *ex post* around elections.

Contributions to the Literature. This study contributes to scholarship across business strategy, entrepreneurial finance, and political economy.

First, I advance the political uncertainty literature by documenting divergent effects of electoral cycles on firm behavior. While existing research largely concludes that political uncertainty depresses economic activity, I show this conclusion is incomplete. By disaggregating investment behavior across different stages of the capital expenditure lifecycle, I demonstrate that electoral uncertainty can produce opposing effects: firms may delay new investment announcements while simultaneously accelerating completion of existing projects, both as a risk-mitigation strategy. In documenting how firms may *accelerate* projects under political uncertainty provides rare empirical evidence of firms exercising growth options under a real options framework, which Bloom (2014) specifically highlights as an area for further research.

Second, I highlight the critical but underexplored role of federal political structures in shaping domestic investment patterns. Some of the world's largest economies—including India, the United States, Brazil, Mexico, and Nigeria—are organized as federal republics, yet management research has largely overlooked how *sub-national* electoral cycles may affect corporate strategy.[3] This omission is particularly glaring given that sub-national governments often wield substantial authority over business regulation, taxation, and industrial policy (Henisz 2000; Chan et al. 2010; Nooruddin

[3]With some exceptions, largely in finance, e.g. (Amore and Minichilli 2018; Jens 2017; Jens and Page 2024).

2010; Zheng et al. 2015; Murali 2017; Adbi et al. 2025). By focusing on state-level elections in India's federal system, I demonstrate how domestic federalism creates repeated, localized political shocks that systematically reallocate capital within countries. This contribution opens new avenues for studying how federal institutions mediate the relationship between politics and corporate strategy in large, decentralized economies.

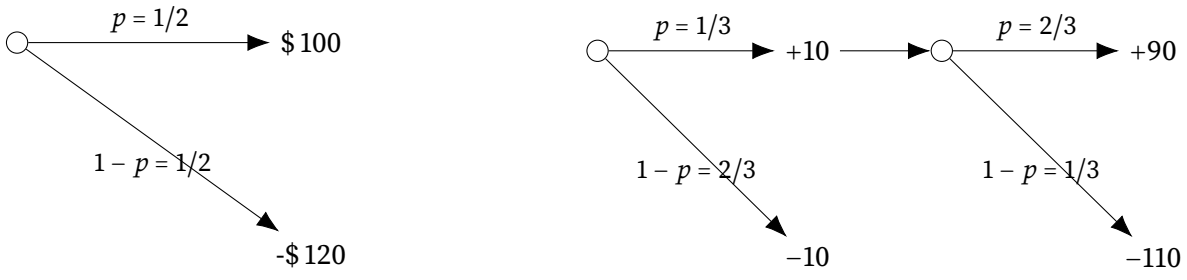
Third, I demonstrate that political influence operates through individual leaders, not just institutional rules. Much of the political risk literature focuses on how policy uncertainty or political institutions (Amore and Corina 2021) affects firm behavior. I instead examine how the geographic origins of specific political leaders shape corporate location choices. In contexts characterized by personalist politics and weak institutional constraints—common features in many developing economies (Khanna and Palepu 1997)—powerful leaders wield discretionary authority that makes their personal backgrounds strategically relevant for firms (Fisman 2001; Siegel 2007). This finding contributes to literatures on both political connections and the geographic aspects of non-market strategy (Jia and Mayer 2017; Bisbee and You 2024; Barber IV and Blake 2024), showing how firms can use spatial capital allocation as a tool for building political access. More broadly, this highlights the importance of understanding not just what policies leaders might implement, but who those leaders are and where they come from.

2. Real Options and Electoral Uncertainty

2.1. Real Options and Strategic Management

Developed originally by theoretical economists, real options theory applies the logic of option pricing in financial markets to "real" economic decisions that involve making costly and irreversible investments under uncertainty (Bernanke 1983; Pindyck 1993; Dixit and Pindyck 1994). The crucial insight is that actors do not simply evaluate whether or not to make an investment statically based on a net present value calculation of each investment choice, but instead can make a more dynamic choice over multiple periods, where the strategy may evolve as potential worlds reveal themselves.

FIGURE 1. Illustration of investment decisions as a one-shot vs. a staged process.



A. Simple decision tree

B. Two-phase decision tree

To illustrate, in Figure 1,[4] the same payoff structure (identical payoffs under success and failure; and identical cumulative probabilities of success and failure), may produce dramatically different expected value calculations depending on whether the decision to invest occurs statically in one time period, or if it is staged as two choices over two periods ($EV_A = (0.5 \times \$100) + (0.5 \times -\$120) = -\$10$; $EV_B = \frac{1}{3}\left(10 + (\frac{2}{3} \times 90) + (\frac{1}{3} \times -110)\right) + \frac{2}{3}(-10) = \$4.44$). In the second case (panel B), the actor can learn about the new state of the world (updated probabilities of a good vs bad outcome) and then choose to invest a larger amount if the world is advantageous, and can avoid making an investment if the world is not advantageous.

In this way, these investments behave more like options—which is the *right*, but not the *obligation*, to make an investment or a purchase—and more accurately reflect real world decision-making within firms, where managers can change investments over time, based on information they receive. For example, after seeing market demand for a pilot product, managers can scale up, shut down, or pivot its existing market entry strategy. Formally, scholars highlight several types of options available to investors (Dixit and Pindyck 1994; Trigeorgis and Reuer 2017): option to delay, option to expand, option to abandon, option to switch, growth options, etc.

Adopting an options lens therefore presents two theoretical upshots. First, it is possible to explicitly calculate the value of the option, say, to delay or defer an investment. And second, as the cost of options evolve with uncertainty (Dixit and Pindyck 1994), it is possible to study how exogenous changes in uncertainty affects the value of various options available to investors.

Management scholars have embraced this real option framework to explain firm behavior in a range of dynamic and uncertain environments.[5] Scholars in this tradition highlight how firms effectively choose to stage their investments after learning crucial information, typically about market forces. For instance, Kogut (1991) describes joint ventures as real options exercised once investors receive market signals about the viability of a new venture; Chang (1995) traces Japanese companies' sequential expansion into the US in the 1970s and '80s by first entering with their core businesses to learn the landscape, before expanding into non-core businesses over time; McGrath et al. (2004) suggests pharmaceutical companies use internal capabilities and assessments of the competitive landscape to mitigate the uncertainty around R&D investments.

While this real option framework has gained little ground within the non-market strategy literature, it remains well-suited to studying how economic actors make costly decisions around periods of political uncertainty. Here, growth-seeking firms choose when to stage their investments, but some forms of capital intensive expenditure, like building a factory or a new plant, inherently expose these firms to political vagaries—from bureaucratic red tape and petty corruption to expropriation risk.[6] Elections are a recurring and observable source of such uncertainty (Baker et al. 2020). Here, firms may choose to wait for a signal from the *political* marketplace about the future

[4] Adapted from NYU finance professor Aswath Damodaran's teaching materials, available online at `https://pages.stern.nyu.edu/~adamodar/pdfiles/DSV2/Ch5.pdf`.

[5] For discussions about how real options may apply to strategic management broadly, see Trigeorgis (1996); Adner and Levinthal (2004a); Trigeorgis and Reuer (2017); Krychowski and Quélin (2010).

[6] In contrast with some kinds of investments in, say, R&D that has a smaller physical footprint and may draw less political attention.

business landscape (say the election of an anti-business populist, or a pro business candidate) to make a large fixed cost investment.

Adner and Levinthal (2004b) seek to draw a boundary on what is a valid application of real options to strategic management, and what is simply an instance of sequential searching, where firms update their strategies over stages. Their key insight is that the real option logic is strained when uncertainty resolution is endogenous to firm action, i.e. when 'wait-and-see' becomes 'do-and-see'. In this case, firms are simply conducting iterative search for their strategy. In the case of capital expenditure around elections, it is clear that the uncertainty originates and resolves largely exogenously to firm strategy—timing of elections is determined constitutionally every five years, and democratic voting determines the outcomes. Therefore, taking a real options lens is a valid approach to assessing elections and strategic management.

I distinguish between the two periods around elections—before and after—which make distinct predictions on firms' strategic choices.

2.2. Strategy Under Pre-Election Uncertainty

Option to Delay. A large body of work across economics, finance, and management finds that political uncertainty increases the risk premium, and therefore dampens corporate risk appetite (Bloom et al. 2007; Pástor and Veronesi 2013; Bloom 2014; Falk and Shelton 2018; Baker et al. 2020; Caldara and Iacoviello 2022). Scholars use elections often as a proxy for political uncertainty, documenting pre-election declines in corporate capital expenditure (Julio and Yook 2012; Jens 2017), M&A (Bonaime et al. 2018), and cross-border flows (Julio and Yook 2016; Honig 2020; Amore and Corina 2021), hiring (Stein and Stone 2013), while increasing lobbying activity and discussions about political risk on investor calls (Hassan et al. 2019).

Treating these costly strategic transactions as real options, political uncertainty *increases* the value of the *option to delay*. Facing electoral uncertainty, it is better for firms to adopt a wait-and-see approach to their investments (Stokey 2016). This hypothesis implies that closer elections, where there is more uncertainty about the future political landscape, should predict deeper declines in corporate activity (Julio and Yook 2012).

Option to Speed Up. While the bulk of academic work has focused on the option to delay, it is not the only option available to companies. Indeed, as Bloom (2014) summarizes: while the scholarly literature tends to find that uncertainty inhibits economic activity, the evidence is not conclusive, potentially because some uncertainty may spur other economic activity—through what the real options literature labels "growth options."

In the canonical exposition of growth options, Pindyck (1993) describes how in some cases, it could be costly for firms to delay actions. In one case, when government regulation on the price of certain inputs may expose firms to exogenous volatility, the article argues that firms should act sooner to minimize exposure to uncertain prices. The decision rule therefore considers the cost to exercise an option immediately (for example, speeding up a project) versus the potential costs in

the future. Uncertainty here may increase the cost of delaying, and may trigger firms to exercise the growth option to scale up investments immediately. Therefore, while uncertainty may still have the effect of raising risk premia, whether the effect on economic activity is positive or negative depends on the kind of project.

Some recent empirical work describes the kinds of insurance-seeking activities that firms may scale up in the face of impending political uncertainty. Jens and Page (2024) for instance finds that firms tend to increase their cash balance ahead of elections, analogous to how households may boost precautionary savings when facing economic uncertainty. Atanassov et al. (2024) find that R&D activities actually increase ahead of close elections, as these activities behave more like cheap call options for the future: lock in upside under positive scenarios, but limit downside as these are comparatively cheaper projects than, say, capex or M&A.

In my setting, I distinguish between new and existing projects. With new investments that take a while to gestate, it makes sense to delay projects until after the election period, while firms learn about what political realities may have changed. In this case, it can minimize its downside by cheaply abandoning plans if electoral outcomes are negative (e.g. the anti-business party wins). With existing investments, however, the cost to abandon the project is much higher. In this environment, insofar as political patronage matters for capex projects, existing projects would already have the necessary formal and informal permissions to proceed. On the other hand, if there is turnover in political leadership, the firm's project becomes vulnerable to capture and extortion.[7] This setting is more similar, therefore, to Pindyck (1993), where there is a cost to speed up an existing investment, but there is also an uncertain cost that may arise from new political realities. Uncertainty here incentivizes firms to speed up their existing projects.

2.3. Strategy in the Election Aftermath

Once results are known, uncertainty declines, and firms are able to act on deferred options. But what information do firms update on? When firms decide whether it is valuable or costly to wait for elections before executing a project, what information are they waiting for? By focusing simply on the *period* of uncertainty, i.e. leading up to polls, most studies on corporate behavior around electoral uncertainty provide an incomplete account. Instead, by examining how firms' strategy updates after the election, it is possible to learn what information firms were holding out for in the first place.

The literature on political uncertainty highlights *policy uncertainty* as a candidate (Stokey 2016). Indices to track economic policy uncertainty show spikes of around elections, which hampers firms' ability to form long-term strategic plans (Baker et al. 2016, 2020). This policy uncertainty may be ideological in nature, with scholars finding systematic market responses to elections won by left wing versus right wing parties, as prognoses of future fiscal and regulatory policies to come

[7] This logic mimics that of obsolescing bargains in International Business and IPE, where MNCs' bargaining power vis-a-vis host governments changes over time as MNCs sink capital into the country, and can be held up by new regimes (e.g. Kobrin (1984); Ramamurti (2001)).

(see e.g. Snowberg et al. (2007); Pástor and Veronesi (2020)).

Alternatively, especially in contexts with weaker institutions and greater personalist politics,[8] the key uncertainty may be less *what policies* may come to pass, but rather *who* will hold power. Turnovers therefore reshape access to state resources, bureaucratic channels, and patronage networks (Fisman 2001; Akhtari et al. 2022; Betz and Pond 2023). In federally organized polities and countries employing single-member district electoral systems (as opposed to, say, a list system), elections also inherently reshape the political geography. Political scientists and strategy scholars have shown how politics shapes the location choices for expanding firms—for instance, Bisbee and You (2024) finds that firms are more likely to set up subsidiaries in electoral swing districts to build ties with vulnerable lawmakers, and Barber IV and Blake (2024) shows that firms may choose to locate new establishments in more ideologically aligned parts of a country.

In India, while policy uncertainty may be high, it is not necessarily connected with electoral turnover. Scholars recognize the primacy of political parties in Indian politics (Yadav 2011), but also how parties tend to form along ethnic or regional lines, or the career ambitions of individual political entrepreneurs (Chhibber et al. 2014), and less along ideological lines. To the extent there is ideological contestation, they tend to focus on social issues like minority inclusion and the role of the state in fostering this inclusion (Chhibber and Verma 2018), and not along economic dimensions that firms may need to monitor. Indeed, some of the most salient instances of policy uncertainty recently have come more from the executive or judicial branches of government.[9]

On the other hand, firms are likely to pay close attention to which politician takes the reins of power. While individual elected representatives have surprisingly little say over actual legislation, owing to institutional rules prohibiting party members from voting against the party whip, and instead act mostly as local fixers (Lee 2020), the chief minister of a state is a highly influential economic actor. Since the 1990s with economic liberalization and the passage of a series of constitutional amendments that devolved power to the state governments, states started competing for a share of the economic pie (Murali 2017). Given the personalist nature of political parties across the country, scholars identified state chief ministers as main actors in India's economic landscape (Rudolph and Rudolph 2001), wielding the discretion to direct subsidies and licenses, but also threaten regulatory scrutiny.

For firms seeking to take advantage of economic opportunities in a state, elections would introduce *personnel uncertainty* perhaps more than *policy uncertainty*: as a new chief minister would require new investments to build ties with the new power broker. In the same way that Bisbee and You (2024) describe how firms may locate their subsidiaries in swing districts to win over vulnerable legislators, firms operating in India may choose to locate investments in areas of electoral or personal significance to the chief minister.

Overall, the pre-election and post-election periods are mirror images in strategic logic: before

[8] Common in developing countries, but decreasingly exclusively so.

[9] See for instance, demonitization (Chodorow-Reich et al. 2020), reversals of corporate tax policies (Blake and Jandhyala 2019), and shocks to political transparency (Puri and Vallee 2025).

the vote, uncertainty increases the value of delaying new investments while accelerating existing ones; after the vote, new information about who takes office allows firms to exercise their deferred investments in politically opportune locations to gain favor with the new power brokers.

3. Context and Data

CapEx Data. To study the behavior of firms around elections, I use unique data capturing the universe of large capital expenditure investments made in India from the mid-1990s, with fine-grained details at the project-level. Collected by the Centre for Monitoring Indian Economy (CMIE),[10] this CapEx dataset combines administrative disclosure on new investment intentions by firms with manual checks on each project at regular quarterly intervals to produce a rich event-level dataset that charts an entire life-cycle of an investment project. Scholars have begun using this dataset, largely to study macroeconomic questions of capital misallocation (Bau and Matray 2023) and project gestation times (Fernandes and Rigato 2023).

Projects are defined as physical constructions designed to create new capacity, like building a new factory or a plant or irrigation canals or office buildings, etc. The dataset is restricted to information about "large" projects, defined as being above 10 million INR (approximately $115,000 in 2025) in value, which is ideal for a study on how costly investments vary across election cycles. The dataset tracks projects made by both governments and private sector actors. Out of the approximately 130,000 unique projects tracked, about 81,000 (approx. 62%) are private sector projects. For this project, I only include private sector investments to avoid picking up patterns of electoral business cycles of government projects which may follow a different logic (Alesina et al. 1993).[11] A unique feature of this data is that it captures investments made by all formally registered businesses, not just publicly listed corporations—a common limitation in existing studies using project-level investments—which permits more generalizable claims.

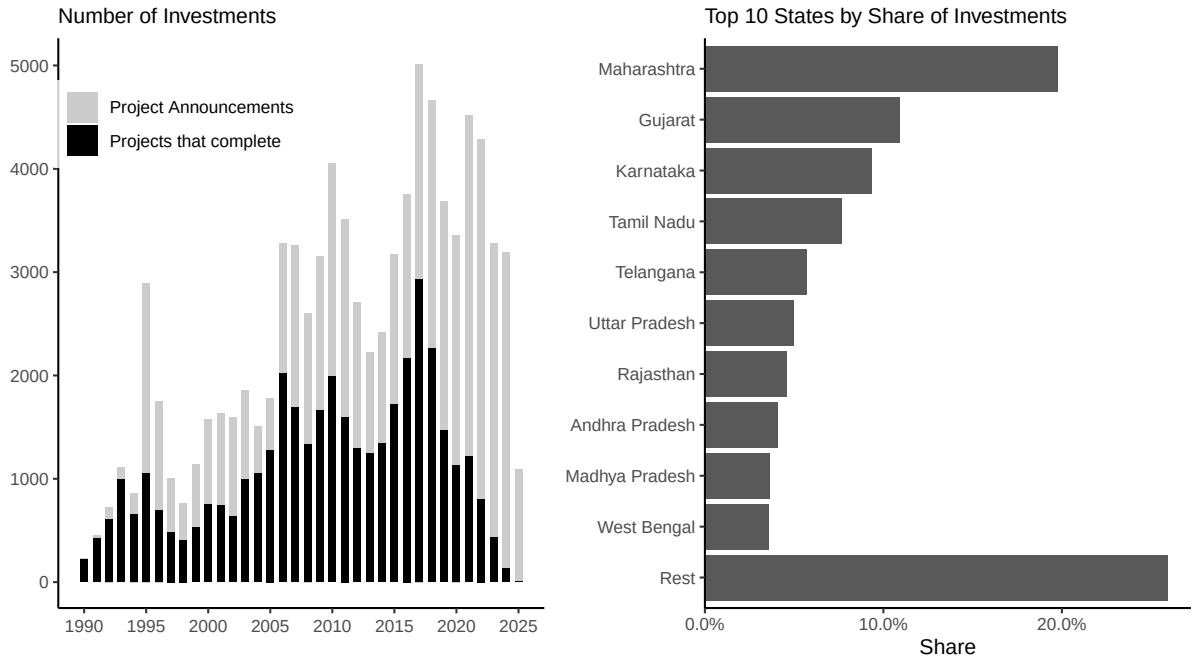
A project enters the dataset when an investment *intention* is disclosed, and so 100% of projects have an announcement date, along with details about the sponsoring company's name, company's location, the investment's location, the project description, and a cost estimate. After that, CMIE employees manually track the life cycle of the project. Over 70% of projects report some implementation status—either project commencement, or application for licenses, board approval, etc.—while around 30% of projects are lost to follow ups, potentially abandoned, or simply non-responses. Approximately 50% of projects ultimately report completions (around 60% of projects that move to implentation). Completion times are right skewed, with the median project taking 28 months (2.3 years) from announcement to completion, but the average project taking 38 months. While the data contains rich data along the life cycle of each projects, for this study I restrict my focus to announcements and completions.[12]

[10] The same institution responsible for collecting and disseminating the Prowess dataset on firm financials and performance, which is the standard in economic studies (see e.g. Topalova and Khandelwal (2011); Kala (2024).)

[11] Specifically, I exclude projects undertaken by central, state, and local government bodies. Details of what kinds of projects I drop are available in appendix A.

[12] Fernandes and Rigato (2023) provides a more thorough macroeconomic examination of the life cycle of these

FIGURE 2. Capex Projects by Year and by State of Investment



Note: This figure describes the project-level Capex dataset from CMIE, subset to exclude all national, state, and local government entities. The panel on the left presents a count of new project announcements by year, the black bars are the share of those announcements that ultimately reach completion. The panel on the right presents the distribution of investment intentions by state.

For investment location, I begin by using the state of the project location. Around half the investments are made by companies with headquarters outside the state of the investment. While some states, like Maharashtra and Gujarat receive lion shares of the investment, there is a fair distribution of investment projects across all states. See figure 2 for a spatial overview. I also use the latitude and longitudes of each project to tie them to assembly constituencies and administrative districts.

Electoral Data. Indian state elections are organized at the level of each state's legislative assembly. Each state assembly term lasts a maximum of five years, after which fresh elections must be held, though early dissolutions can shorten this cycle. Importantly for this study, assembly elections are not synchronized nationwide: each state follows its own electoral calendar, producing a staggered sequence of contests across the country. In any given year, between two and seven states go to the polls while others remain in mid-term, generating plausibly exogenous variation in electoral timing across states. This staggered structure allows for comparisons between states facing imminent elections and those not currently in an electoral cycle, which I exploit to causally identify the effect of elections on corporate behavior. See figure 3 to observe how elections are staggered across states

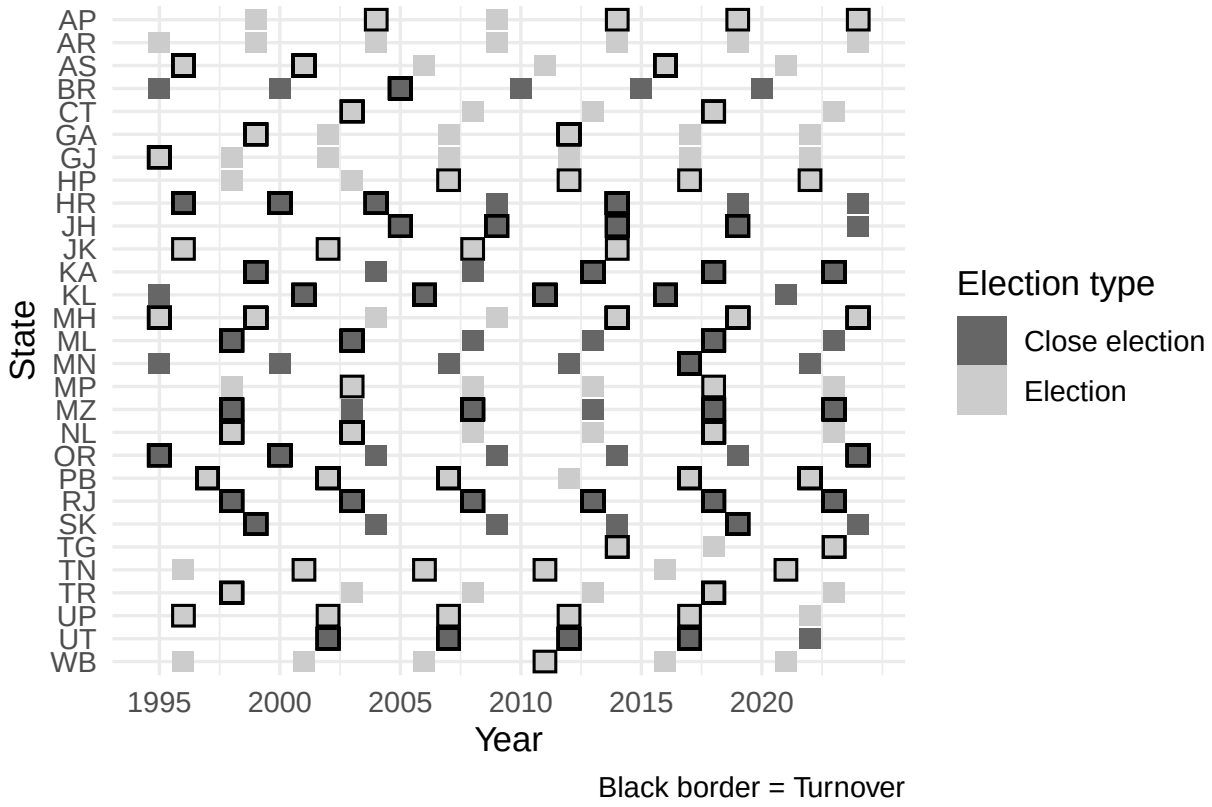
projects.

TABLE 1. Summary Statistics

Variable	N	Mean	SD	P25	Median	P75
Panel A: Project-Level Characteristics						
Project cost (INR millions)	54,954	6183.1	44617.8	134.3	500.0	2121.5
Project completed (0/1)	80,768	0.460	0.498	0.000	0.000	1.000
Construction commenced (0/1)	80,768	0.418	0.493	0.000	0.000	1.000
Time to commencement (months)	33,772	10.36	19.07	1.94	3.02	10.28
Time to completion (months)	37,179	37.29	31.55	16.43	27.10	48.55
Panel B: State-Month Panel						
Number of projects announced	11,232	6.51	14.06	0.000	2.00	7.00
Number of unique firms investing	11,232	5.64	11.90	0.000	1.00	7.00
Investment amount (INR millions)	11,232	32294.6	155448.2	0.000	400.0	11403.4
Number of projects completed	11,232	2.92	6.51	0.000	1.00	3.00
Unique firms completing projects	11,232	2.68	5.80	0.000	1.00	3.00
Completed investment amount (INR millions)	11,232	7847.7	57217.0	0.000	0.000	1623.3
Election month (0/1)	11,232	0.014	0.118	0.000	0.000	0.000

Notes: Panel A reports project-level characteristics for private sector projects from the CMIE CapEx database. Government and public sector projects are excluded. Time to commencement and completion are conditional on the project having commenced or completed, respectively. Panel B reports state-month level aggregates used in the regression analysis.

FIGURE 3. Staggered State Elections



Note: This figure shows how state elections in India are held on a staggered basis, roughly every five years. Close elections—defined as those where the mean margin of victory across constituencies is below the median across all elections—are shaded in dark gray. Chief Minister party turnovers are highlighted with a black border.

by year. Not visible in the figure is that there is variation within the year as well.

For political data, I primarily rely on data prepared and disseminated by the Trivedi Centre for Political Data (TCPD). Its Indian Elections Dataset (IED) provides a comprehensive database on all national and state assembly elections from 1962-2022. As India runs single-member district first past the post elections, it reports results at the candidate level for each assembly constituency for each election, with uniquely identified information about parties and individual candidates (Jensenius and Verniers 2017; Agarwal et al. 2021). I also use its Chief Ministers of India Database to gather information on background and party information of all chief ministers who have held office.

I start by using the IED to extract the months and years that each state holds an election to build a timeline of election-proximity for each state. I also use this data to characterize the closeness of each election's results. While this dataset reports results at the level of the assembly constituency, or the seat, state-level results are ultimately decided as an aggregation of the results: the party with the majority seats in the assembly is invited to form a government. In cases where no party wins a clear majority, a coalition may form, or the assembly may be dissolved for re-elections to be held,

in which case the state is governed by "President's Rule."

To compute a measure of electoral closeness, which I use as a proxy for heightened political uncertainty, I calculate the average margin of victory across all constituencies in a state election:

$$\text{Mean MOV} = \frac{1}{N}\sum_{c=1}^{N}\left(v_{c,1} - v_{c,2}\right) \tag{1}$$

where (N) is the number of constituencies, and $v_{c,1}$ and $v_{c,2}$ are the vote shares of the first- and second-placed candidates in constituency (c). This measure captures the average competitiveness of races across the state: a lower mean margin of victory indicates that individual races were more closely contested, suggesting greater overall electoral uncertainty. I classify elections with below-median mean MOV as "close" elections. Appendix B visualizes the distribution of average MOVs across elections, and disaggregated margin of victories at the constitutency-level.[13]

Finally, for chief minister turnover, I use the TCPD Chief Ministers of India Database (CMID), which records all chief minister terms from 1962 to 2022, including the assembly constituency each chief minister represented. To link chief ministers to geographic locations, I map assembly constituencies to census districts using shapefiles, accounting for the 2008 delimitation that reorganized constituency boundaries across most Indian states. For elections before 2008, I use pre-delimitation constituency boundaries; for elections after 2008, I use post-delimitation boundaries. I then perform spatial intersections between constituency and district shapefiles to create a crosswalk, allowing me to identify which district each chief minister's constituency falls within. This enables analysis of how investment patterns respond to having a local chief minister at the district level.

Preparation. To study how the timing of state elections shapes the spatial and temporal allocation of private investment projects, I transform this project-level capex data into a state-by-month panel. Each observation aggregates investment activity—counts of new project announcements and completions—for a given state and month. I then exploit the staggered nature of Indian state elections to implement a stacked difference-in-differences (stacked DiD) design (Cengiz et al. 2019; Deshpande and Li 2019).

The stacked DiD approach proceeds by constructing multiple clean 2×2 designs, each centered on a single election event. For each election, treated states are paired with control states that do not hold elections within the same time window (12 months before to 9 months after the focal election). These individual designs are re-centered in event time and stacked into a single dataset, producing 56 distinct election cohorts, covering 149 unique state elections that span from 1999–2023. This enables the estimation of average dynamic treatment effects that are directly interpretable as

[13] Ideally I would use an ex ante measure of election closeness rather than realized ex post measure of closeness, but lacking reliable opinion poll data for most elections, I follow standard approaches in the literature and use ex post electoral results to characterize the competitiveness of the race (e.g. Julio and Yook (2012); Baker et al. (2020); Canes-Wrone and Park (2014); Falk and Shelton (2018)). Falk and Shelton (2018)'s analysis of elections in the US finds that ex post results are a good proxy for ex ante contestation.

impacts relative to the election date.

4. Capex Before Elections

In this section, I examine how firms adapt their long-term capital deployment strategies when facing upcoming electoral uncertainty.

4.1. Empirical Approach

I start by aggregating outcome measures of interest to construct a balanced panel at the state-month level. I focus on two sets of outcome variables: new projects announced to be located in the state, and completions of existing projects located in the state. For each set, I compute four measures: (1) a binary indicator for whether any project was announced or completed in the state-month; (2) a count of how many projects were announced or completed; (3) a count of unique firms announcing or completing projects, to avoid results being driven by a few hyperactive companies; and (4) the total rupee amount of capital expenditure announced or completed. The first measure captures the extensive margin—whether any investment activity occurs—while the latter three capture intensive margins of investment. In state-months with no reported activity, I code zeros for all measures. Most state-month cells report some activity: 37% of state-months report no new investment announcements, and 49% report no investment completions.

For each election period ("election-month"), I define experimental sub-samples, where the state, or states, going for polls are treated units, and I define control units as all states that are not scheduled to hold elections within twelve months on either side of the focal election-month. I then define quarters around the election in three-month increments around the election month. For instance, "-1" refers to the the three months leading up to, and including, the election month; "-2" the three months prior to that; "1" as the three months following the election-month, and so on. These event-time bins allow me to center all experimental sub-samples to compare how capex activity evolves in three-month bins around the polls.

I estimate two related specifications. First, for the event study, I estimate:

$$y_{est} = \alpha_{es} + \gamma_{et} + \sum_{q \neq -3} \beta_q \, 1[\text{QtoElec}_{et} = q] \times 1[\text{Treat}_{es} = 1] + \varepsilon_{est} \tag{2}$$

where y_{est} is the outcome for state s in month t during election cohort e; α_{es} are cohort–state fixed effects; γ_{et} are cohort–time fixed effects; Treat_{es} indicates whether state s holds an election in cohort e; and $\text{QuarterToElec}_{et}$ indexes three-month bins relative to the election date. The omitted category is quarter $q = -3$ (6–8 months before the election), so coefficients β_q represent the differential change in outcomes for treated states relative to controls, compared to this reference period. This specification traces out the dynamic path of treatment effects, allowing me to assess both pre-trends and the evolution of effects around elections.

Second, I estimate a static difference-in-differences specification where I estimate the following specification for each time bin b:

$$y_{iet} = \alpha_{ei} + \gamma_{et} + \beta_b 1[D_{ie} \cdot b] + \epsilon_{iet}, \tag{3}$$

where y_{iet} is the outcome for state i in month t during the election period e; α_{ei} are state–event fixed effects; γ_{et} are event-time fixed effects; D_{ie} is the treatment indicator, which takes the value 1 if the state is going for polls during the election event, and and $1[D_{ie}b]$ is an indicator for whether the treated state falls in three month bin b. Standard errors are clustered at the state–month level.

A real options theory of electoral uncertainty makes divergent predictions about what to expect about economic activity leading up to an election. For new projects announcements, given multi-year project gestation periods, firms would likely adopt a wait-and-see approach before committing to costly capital expenditure projects with multi-year gestation periods that may be held up by an awry political outcome. Whereas for existing investments, the same risk of an undesirable electoral outcome and potential political hold up increases the value in speeding up projects to completion prior to polls. In other words, electoral uncertainty is likely to incentivize firms to *delay* new investment plans, but *accelerate* existing projects to completion. This prediction implies a $\hat{\beta}_b < 0$ for new project announcements, and $\hat{\beta}_b > 0$ for project completions in the period prior to an election.

4.2. Results

4.2.1. Divergent Effects of Elections on New Project Announcements and Existing Project Completions

I examine how pre-electoral uncertainty affects two distinct margins of investment activity: new project announcements and existing project completions. Real options theory predicts divergent responses along these margins. Under uncertainty, the value of waiting increases, incentivizing firms to delay irreversible commitments like new investments. Simultaneously, uncertainty about future conditions may accelerate the completion of ongoing projects as firms seek to lock in returns before the political landscape shifts.

Dynamic Event Study Results. Figure 4 presents event study estimates from equation 3, plotting coefficients on $\hat{\beta}_q$ for each quarter relative to the election. For new announcements (left panel), investment activity declines sharply in the quarter immediately preceding elections—the three months including the election month. No significant pre-trends appear in earlier quarters ($q = -4, -3, -2$), supporting the identifying assumption that poll-bound and non-poll-bound states would have followed parallel trends absent the election.

For project completions (right panel), I find a mirror-image. Completions spike in the quarter *before* the pre-election quarter ($q = -2$), suggesting firms accelerate ongoing projects to completion

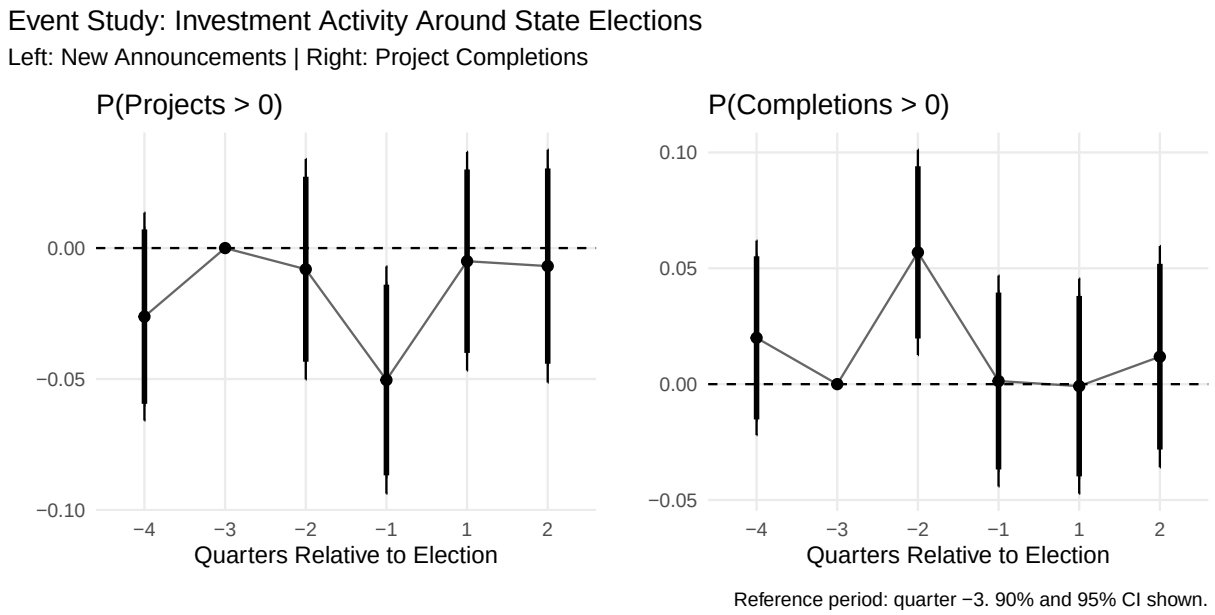


FIGURE 4. Investment Activity Around State Elections

Note: This figure presents event study estimates of investment activity in poll-bound versus non-poll-bound states around state elections. Left panel shows new project announcements; right panel shows existing project completions. Coefficients are plotted relative to quarter −3 (reference period). Quarter −1 includes the election month. P(Projects) and P(Completions) are binary outcomes equal to 1 when any project is announced or completed in a state-month. Estimates are from a stacked difference-in-differences design with election × state and election × time fixed effects. 90% and 95% confidence intervals shown. Standard errors clustered by state × month.

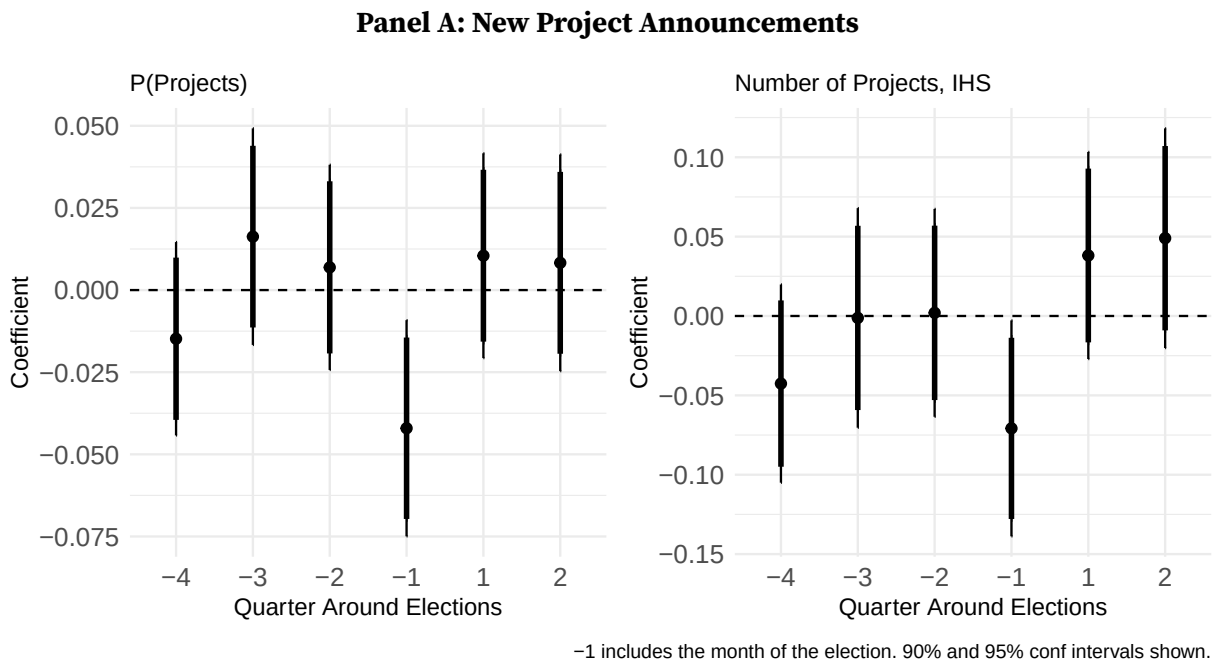
ahead of elections. This timing difference (new announcements slowing down in the quarter of the elections, while completions occurring a quarter ahead) is consistent with forward-looking behavior. Unlike announcements—which firms can delay until uncertainty resolves—accelerating completions requires lead time. Firms anticipating electoral uncertainty are likely to begin expediting ongoing projects several months in advance to ensure completion before the election. By quarter −1, it is potentially too late to meaningfully speed up construction. The staggered timing thus reflects the distinct decision horizons for each margin: announcements respond to *current* uncertainty (peaking when uncertainty is highest), while completions respond to *anticipated* uncertainty (peaking when there is still time to act).

Static Difference-in-Differences Results. Figure 5 reports static DiD estimates, collapsing the dynamic effects into the relevant pre-election quarters. For announcements, the probability that a poll-bound state receives any new investment falls by 4.2 percentage points in the pre-election quarter—a 7% decline relative to the baseline incidence rate. The number of projects announced falls by 7.1% (IHS), the number of unique firms announcing projects falls by 6.0% (IHS), and total investment amounts fall by 33% (IHS). For completions, the pattern reverses: the probability of any project completion rises by 4.8 percentage points (10% relative to baseline), and the number of completions increases by 7.6% (IHS). For context, across a range of specifications controlling for state, announcement years,

industry, project cost, and even exploiting only within-company variation, projects completed in the six months leading up to a state election report between 5 and 10% less time to completion (see table 2).

Appendix C presents pre-election period effects across a range of outcome measures—a binary measure of new project announcements/existing project completions, number of unique firms making/completing projects, number of new projects/existing project completions, and the rupee amount of capex being announced/completed in each quarter around elections. Across different empirical specifications and outcomes, a clear pattern emerges: firms pair back new capex investments ahead of elections, but at the same time accelerate existing projects to completion. These divergent responses are consistent with firms managing their exposure to political uncertainty.

FIGURE 5. Investment Activity Around State Elections



Note: This figure shows how investment activity compares across poll-bound and non-poll-bound states around election dates. Panel A shows new project announcements; Panel B shows existing project completions. Coefficients plot monthly estimates averaged over three-month intervals. Quarter –1 includes the election month. P(Projects) and P(Completions) are binary outcomes equal to 1 when any project is announced or completed in a state-month. Number of Projects/Completions (IHS) is an inverse hyperbolic sine transformed count per state-month. 90% and 95% confidence intervals plotted.

TABLE 2. Time-to-Completion by Proximity to Election

	Months to Completion, Logged				
	(1)	(2)	(3)	(4)	(5)
Pre-Election Period	−0.068**	−0.048**	−0.067***	−0.068**	−0.102**
	(0.027)	(0.023)	(0.024)	(0.027)	(0.045)
Controls					
State FE	✓	✓	✓		
Announce Year FE	✓	✓	✓		✓
Industry FE		✓	✓	✓	
Log(Project Cost)			✓	✓	✓
State × Announce Year FE				✓	
Company FE					✓
Num.Obs.	36 677	36 677	23 151	23 151	23 151
R^2	0.096	0.282	0.349	0.388	0.739

Note: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$. Dependent variable is log(months from announcement to completion). Pre-election period is defined as completion occurring 1–6 months before an election in the project state. Standard errors clustered by state.

4.2.2. Irreversibility and Uncertainty: A Test of Real Options Theory

The real options framework makes specific predictions about how investment responses should vary with two key parameters: the degree of irreversibility and the level of uncertainty. I now examine heterogeneity along both dimensions.

I proxy for investment irreversibility using project size, measured in rupee terms. Larger investments typically entail greater sunk costs, longer planning horizons, more complex permitting requirements, and coordination across multiple stakeholders—all of which increase the cost of reversing or abandoning a project once initiated. Under real options theory, more irreversible investments should exhibit stronger delay responses to uncertainty, as the option value of waiting is higher when commitments cannot easily be undone.

I proxy for political uncertainty using election closeness, measured as the average margin of victory (MOV) across constituencies. Close elections—those with below-median MOV—generate greater uncertainty about the incoming government's identity, policy priorities, and regulatory stance. Firms facing close elections should respond more strongly if they are indeed responding to political uncertainty rather than to election-related disruptions more broadly.

Results: Election Closeness. Table 3 compares investment responses between close and non-close elections. The results strongly support the uncertainty mechanism. For non-close elections, an-

TABLE 3. Heterogeneity by Election Closeness

	Announcements (Quarter −1)				Completions (Quarter −2)			
	P(Project)		# Projects (IHS)		P(Completion)		# Completions (IHS)	
	Non-Close	Close	Non-Close	Close	Non-Close	Close	Non-Close	Close
Pre-Election × Treat	−0.018	−0.066***	−0.018	−0.126***	0.003	0.095***	0.018	0.137***
	(0.023)	(0.024)	(0.048)	(0.049)	(0.022)	(0.025)	(0.039)	(0.040)
FE: Election × State	✓	✓	✓	✓	✓	✓	✓	✓
FE: Election × Time	✓	✓	✓	✓	✓	✓	✓	✓
Observations	30,712	30,690	30,712	30,690	30,712	30,690	30,712	30,690

Notes: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$. This table compares investment responses between close and non-close elections. Close elections are defined as those with below-median average margin of victory (MOV) across constituencies. Non-close election estimates exclude close-election treated states; close election estimates exclude non-close treated states. Standard errors clustered by state × month.

nouncement declines are small and statistically insignificant (−1.8 pp, $p = 0.43$). For close elections, announcement declines are nearly four times larger and highly significant (−6.6 pp, $p < 0.01$). The pattern is even more striking for project counts: close elections see a 12.6% decline in announcements versus an insignificant 1.8% for non-close elections. Completions exhibit a similar asymmetry—close elections drive a 9.5 pp increase in completion probability versus no significant change for non-close elections. These results indicate that firms respond specifically to electoral uncertainty, not merely to election timing.

Results: Investment Size. Table 4 compares responses between small and large projects (split at median project cost of approximately Rs 500 million). For announcements, large projects show stronger declines: the number of large project announcements falls by 8.0% (IHS, $p < 0.01$) compared to 4.3% for small projects ($p = 0.18$). This is consistent with real options theory—larger, more irreversible investments carry higher option value of delay. For completions, however, the pattern reverses: small projects show *larger* completion accelerations (6.4% vs 5.2%). This asymmetry likely reflects that smaller projects are easier to expedite. Large projects face binding constraints—complex permitting, multi-party coordination, and longer construction timelines—that limit how much completion can be accelerated regardless of incentives. Small projects, by contrast, may have more slack in their timelines and fewer coordination hurdles, allowing firms to pull forward completions more readily.

Interpretation.. Taken together, the heterogeneity results provide strong support for a real options interpretation of the main findings. Investment responses are concentrated where uncertainty is highest (close elections) and where irreversibility is greatest (large projects for announcements). The completion acceleration is strongest for small projects, consistent with the practical constraints that limit how quickly large, complex projects can be expedited. Firms appear to actively manage both margins of their investment pipeline in response to political uncertainty—delaying new

TABLE 4. Heterogeneity by Investment Size

	Announcements (Quarter −1)				Completions (Quarter −2)			
	P(Project)		# Projects (IHS)		P(Completion)		# Completions (IHS)	
	Small	Large	Small	Large	Small	Large	Small	Large
Pre-Election × Treat	−0.034**	−0.037**	−0.043	−0.080***	0.045**	0.038**	0.064**	0.052**
	(0.017)	(0.018)	(0.032)	(0.030)	(0.018)	(0.018)	(0.026)	(0.025)
FE: Election × State	✓	✓	✓	✓	✓	✓	✓	✓
FE: Election × Time	✓	✓	✓	✓	✓	✓	✓	✓
Observations	32,464	32,464	32,464	32,464	32,464	32,464	32,464	32,464

Notes: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$. This table compares investment responses between small and large projects. Large projects are defined as those with above-median project cost (approximately Rs 500 million). Each column reports separate regressions on size-specific state-month panels. Standard errors clustered by state × month.

irreversible commitments while accelerating flexible ongoing ones.

5. Capex After Elections

How do firms update their investment strategy in the election aftermath?

In a real options framework, firms benefit from delaying new investments while uncertainty in the first period resolves itself. After the new state of the world is revealed, firms can then decide whether and how to structure investments in a maximally profitable way. Studying investment decisions in the post-election period reveals the new payoff structures that emerge after elections reshuffle political geographies.

Given the primacy of the executive branch and the personalist nature of party politics in India (Rudolph and Rudolph 2001; Chhibber et al. 2014), in this section, I examine how capex announcements respond to political turnover at the executive level. Specifically, I examine electoral turnovers which replace the state's chief minister (CM). I focus on whether the incoming CM's home districts benefit disproportionately from new project announcements in the years immediately following turnover, as access-seeking firms deploy capital in politically expedient ways.

5.1. Empirical Approach

For this study, I construct district–quarter panels of project announcements from the capex dataset. Using the TCPD Chief Ministers of India Database (CMID), I identify CM turnover events from 1995 to 2022 satisfying the following criteria:

a. Regular election: The preceding election took place at least four years earlier, excluding snap elections and mid-term reshuffles that do not reflect the normal electoral cycle.
b. Genuine leadership change: The incoming CM is a different individual from the outgoing CM, ensuring the turnover represents a substantive change in political personnel rather than a re-appointment.

c. District mappable: The incoming CM's assembly constituency can be mapped to a census district via pre- and post-delimitation shapefiles, allowing the treated district to be precisely identified.

These criteria yield 43 clean CM turnover events. For each, I create within-state experimental sub-samples that I stack to conduct a stacked difference-in-differences analysis. The treated district is defined as the incoming CM's home district, mapped from their assembly constituency. The remaining districts in the state serve as controls.

Within each district–quarter observation, I aggregate four outcome measures: an indicator for whether any new projects were announced that quarter; a count of new projects announced (IHS-transformed); the number of distinct firms announcing projects (IHS-transformed); and the total rupee amount of new project announcements (IHS-transformed). I use the inverse hyperbolic sine (IHS) transformation for count and amount outcomes to accommodate the large mass of zeros and right-skewed distributions.

I define an event-time variable that measures quarters relative to the turnover quarter ($t = 0$). For estimation, I use $t = -1$ (the quarter immediately before the election) as the baseline period, and collapse to annual bins to reduce noise. Each sub-sample spans three years before to three years after the election, giving a symmetric $[-3, +3]$ window. Centering around turnovers allows me to stack each experimental sub-sample and estimate an average effect of CM turnover on capex investments across all 43 instances of turnover.

The event-study specification is:

$$y_{edt} = \alpha_{ed} + \gamma_{et} + \sum_{s \neq -1} \beta_s D_{ed} \cdot \mathbb{1}[t = s] + \epsilon_{edt}, \tag{4}$$

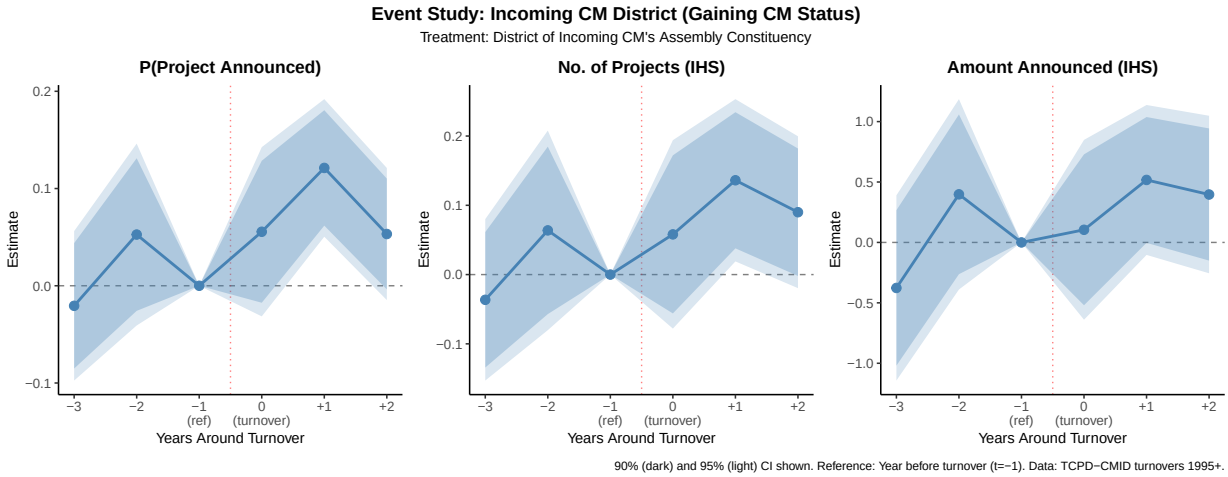
where d, e, and t index districts, state-election turnover events (e.g. UP-2017), and relative time around the turnover (e.g. $t = -1$ for the year before). y_{edt} is the outcome in district d at relative time t within turnover event e. α_{ed} and γ_{et} capture district and relative-time fixed effects within each turnover event. D_{ed} is an indicator for whether the district is the incoming CM's home district. Standard errors are clustered at the election-district (ed) level.

For the static estimates, I replace the event-time interactions with a single *Post* indicator equal to one for all quarters at or after the election, and report the coefficient on Treat × Post. This design compares the treated district's outcomes to those of other districts in the same state, before and after the turnover, netting out state-wide shocks and time-invariant district characteristics.

5.2. Results

Figure 6 presents the results of this event study across all three outcomes, plotting the estimates of $\hat{\beta}_s$ around the turnover year. The pre-election coefficients are small and statistically indistinguishable from zero, validating the parallel trends assumption. In general, the post-election dynamics point to a sharp increase in capex announcements in the new CM's home district immediately after taking office.

FIGURE 6. Effect of CM Turnover on Capex Announcements



Note: This figure shows how project announcements compare across the incoming CM's home district and other districts within the state around electoral turnovers. Coefficients plot annual estimates relative to the year before the election ($t = -1$, reference). P(invest) is a binary outcome equal to 1 if any project is announced in a district-quarter. Number of Projects and Amount Announced are inverse hyperbolic sine transformed. 90% and 95% confidence intervals shown. Sample: 43 TCPD-CMID turnovers 1995–2022.

TABLE 5. Effect of CM Turnover on District Investment: Static DiD

	P(invest)	# Projects	# Firms	Amount
	(1)	(2)	(3)	(4)
Treat × Post	0.065***	0.085*	0.079*	0.321*
	(0.024)	(0.047)	(0.045)	(0.177)
Fixed effects				
Election-district	✓	✓	✓	✓
Election-Rel. quarter	✓	✓	✓	✓

Note: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$. Stacked DiD estimates. Window: 3 years pre to 3 years post election. Treated district = home district of incoming Chief Minister, mapped from assembly constituency. Sample: TCPD-CMID turnovers 1995–2022; restricted to regular elections (gap ≥ 4 years) and genuine CM changes ($N = 43$). All count and amount outcomes IHS-transformed. SEs clustered at election-district level.

Table 5 presents the static DiD estimates pooled over the post-election window. The probability that the new CM's district receives any investment increases by 6.5 percentage points ($p < 0.01$), with the number of projects rising by approximately 8.5% and total investment amounts by approximately 32%. These results suggest meaningful rebalancing of corporate strategy in response to new political realities.

The role of central government alignment.. To better understand the mechanism driving the CM district premium, I examine a key source of heterogeneity: whether the incoming CM's party is the same as that of the Prime Minister at the time. This is motivated by India's federal structure, in which state and central governments jointly govern the regulatory environment for large private investments. Environmental clearances, land acquisition under national statutes, and sectoral approvals from central ministries all require coordination across levels of government, and prior work across economics and political science confirms the value of partisan alignment to ease bureaucratic hurdles in the Indian context (Asher and Novosad 2017; Rivera 2020; Garg and Sedai 2026). A CM whose party controls the central government faces fewer frictions navigating these multi-layered checks—their co-partisans in Delhi can smooth bureaucratic processes, fast-track clearances, and align central agency priorities with the state's investment agenda. An opposition CM, by contrast, may find the same processes slowed or complicated by political friction at the center. Firms that are deciding where to direct capital after a CM turnover should therefore respond much more strongly when the incoming CM is co-partisan with the Prime Minister, since the value of political access is amplified by this vertical alignment across levels of government.

Table 6 (Panel A) reports results splitting the sample by Prime Minister alignment, i.e. whether the incoming CM belongs to the party of the Prime Minister of the national government. PM periods follow the actual central government composition: BJP under Vajpayee (1998–2003), INC under Manmohan Singh (2004–2013), and BJP under Modi (2014 onward). When the incoming CM's party matches the PM's party ($N = 15$), the investment premium nearly doubles: P(invest) rises by over 10 percentage points ($p < 0.01$) and investment amounts by 50.5% ($p = 0.10$). When CM and PM are from different parties ($N = 28$), all four outcome coefficients are small and statistically indistinguishable from zero. This pattern is symmetric across parties: BJP CMs under BJP PMs show a 13.5 pp increase in P(invest) ($p = 0.07$) and INC CMs under INC PMs show a 9.1 pp increase ($p = 0.03$), ruling out the explanation that one party is simply more pro-business than the other. The effect is about vertical political alignment, not partisan identity.

Taken together, these results show that political geography matters for firms' strategic location decisions, and that by delaying investments prior to elections, firms are waiting to learn who the next power broker will be—and, critically, how much power that person can actually wield. The strong amplification of the CM district premium when the state and central governments are co-partisan points to the logic of firms seeking access, as vertically aligned chief ministers are more valuable.

6. Conclusion

This paper documents how elections systematically affect how firms allocate capital across time and space, in the world's largest democracy where elections dominate the political landscape. By bringing together a unique project-level dataset on the life cycle of large capital expenditures with a stacked difference-in-differences design exploiting staggered state elections, I document distinct

TABLE 6. Heterogeneity in CM District Investment Effect

Sample	P(invest) (1)	# Projects (2)	# Firms (3)	Amount (4)
All turnovers (N = 43)	0.065***	0.084*	0.079*	0.321*
	(0.024)	(0.047)	(0.045)	(0.177)
CM party = PM party (N = 15)	0.108***	0.123	0.106	0.505
	(0.040)	(0.084)	(0.078)	(0.306)
CM party ≠ PM party (N = 28)	0.031	0.054	0.057	0.175
	(0.027)	(0.052)	(0.053)	(0.202)
Election-district FE	✓	✓	✓	✓
Election-Rel. quarter FE	✓	✓	✓	✓

Note: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$. Each row is a separate regression of the outcome on Treat × Post. Treat = incoming CM home district. Count and amount outcomes IHS-transformed. PM periods: BJP 1998–2003 (Vajpayee), INC 2004–2013 (Manmohan Singh), BJP 2014+ (Modi); SEs clustered at election-district level. Window ±3 years.

dynamics in pre-election and post-election period. Immediately prior to elections, I find firms delay announcing new projects but accelerate the completion of existing ones; after elections, firms concentrate new investments in the home districts of incoming chief ministers. These results suggest that managers actively adjust their growth strategies in anticipation of, and in response to, shifts in political uncertainty and leadership.

Framing these findings through a real options lens clarifies why political uncertainty does not uniformly depress economic activity. Before elections, heightened uncertainty inflates the value of delaying irreversible commitments while increasing the incentive to complete vulnerable ongoing projects under a known political regime. After elections, when uncertainty resolves, firms act on deferred investment plans, deploying capital in ways that maximize political access under the new leadership. This sequencing underscores that the strategic calculus around elections concerns both minimizing downside risk but also positioning for future growth in a politically mediated business environment.

Beyond contributing to research on political uncertainty and corporate strategy, this study highlights the underexplored role of federal political structures in shaping domestic investment patterns. Subnational elections, particularly in large federations, create repeated, localized shocks to the political landscape that can generate persistent reallocation of capital within a country. Recognizing the spatial dimension of political influence—who holds office, and where—provides a fuller account of how politics affects firms' core strategic decisions. In doing so, the paper offers both a conceptual and empirical foundation for examining how both *the rules* and *the rulers* jointly shape the geography and timing of private investment.

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Appendix A. Capex Data Construction

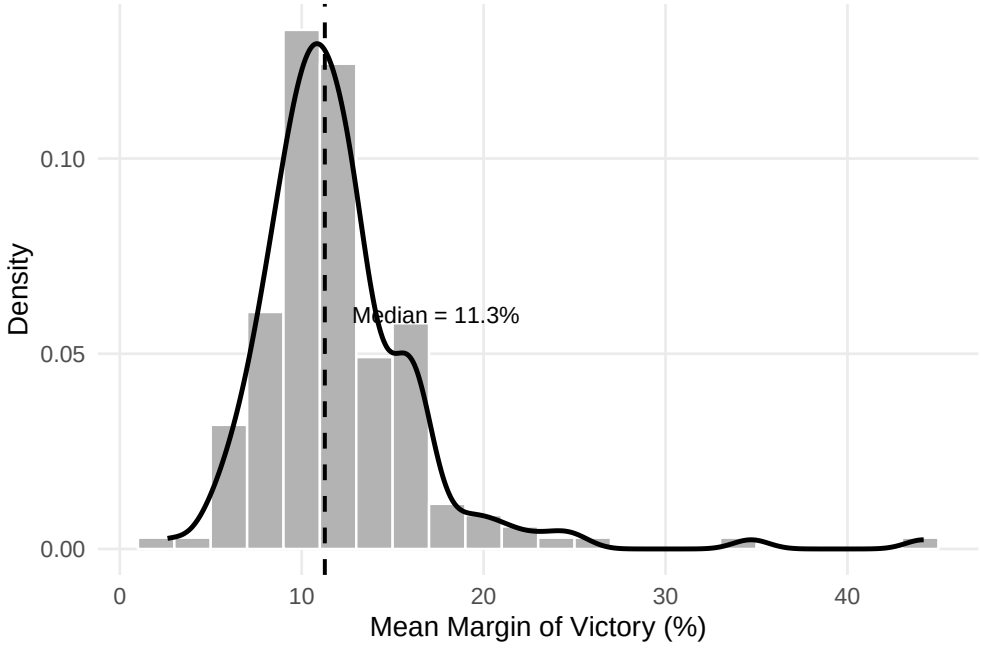
Details on the kinds of Central, State, and Local government body projects excluded to produce a dataset of private sector investments.

TABLE A1. Excluded Government/Public Sector Ownership Categories

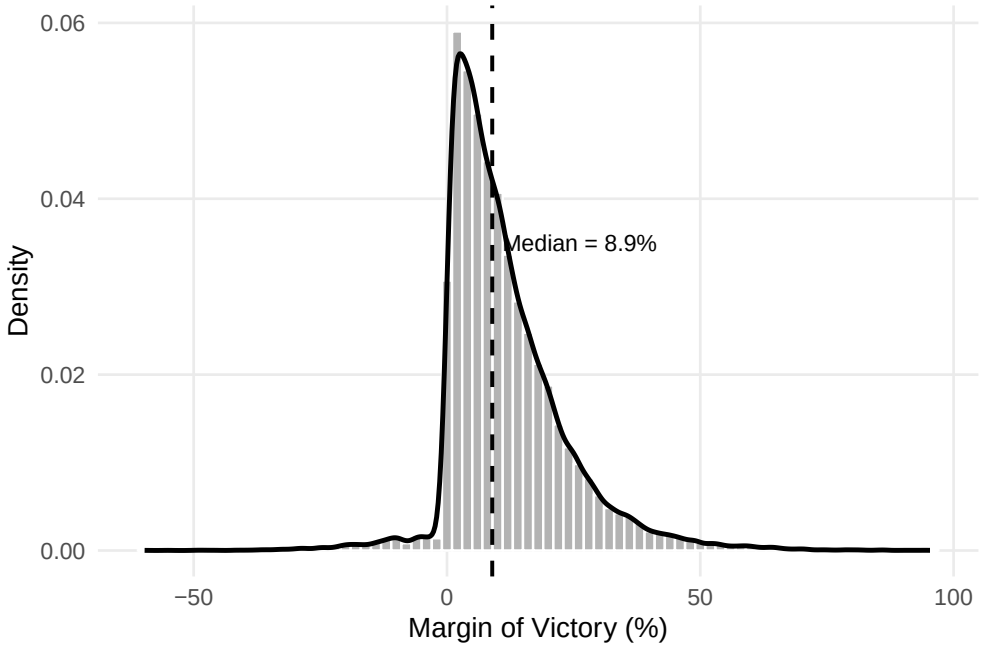
Ownership Category	Projects	% of Excluded
State-Level Entities		
State Government	14,278	29.4
State Govt. - Commercial Enterprises	6,197	12.8
State Govt. - Departmental Undertaking	3,263	6.7
State Govt. - Statutory Bodies	2,781	5.7
State Electricity Boards	682	1.4
State Housing Boards	266	0.5
State Road Transports	184	0.4
State Govt. - Management Enterprises	77	0.2
State Govt. - Quasi	3	0.0
Central-Level Entities		
Central Govt. - Commercial Enterprises	7,505	15.5
Central Govt. - Statutory Bodies	4,048	8.3
Central Government	3,241	6.7
Central Govt. - Departmental Undertaking	2,600	5.4
Central Govt. - Management Enterprises	315	0.6
Central Government - Takenover Enterprises	41	0.1
Joint/Local Entities		
Government Local Bodies	3,014	6.2
Central & State Governments	58	0.1
Total Excluded	**48,553**	**100.0**

Notes: This table lists all ownership categories classified as government or public sector and excluded from the analysis sample. The full dataset contains 129,321 unique projects. After excluding 48,553 government/public sector projects, the analysis sample contains 80,768 private sector projects (62.5% of total).

Appendix B. Election Closeness



A. Distribution of Mean Margin of Victory by Election



B. Distribution of Margin of Victory by Constituency

FIGURE A1. Electoral Competitiveness in Indian State Elections, 1995–2024

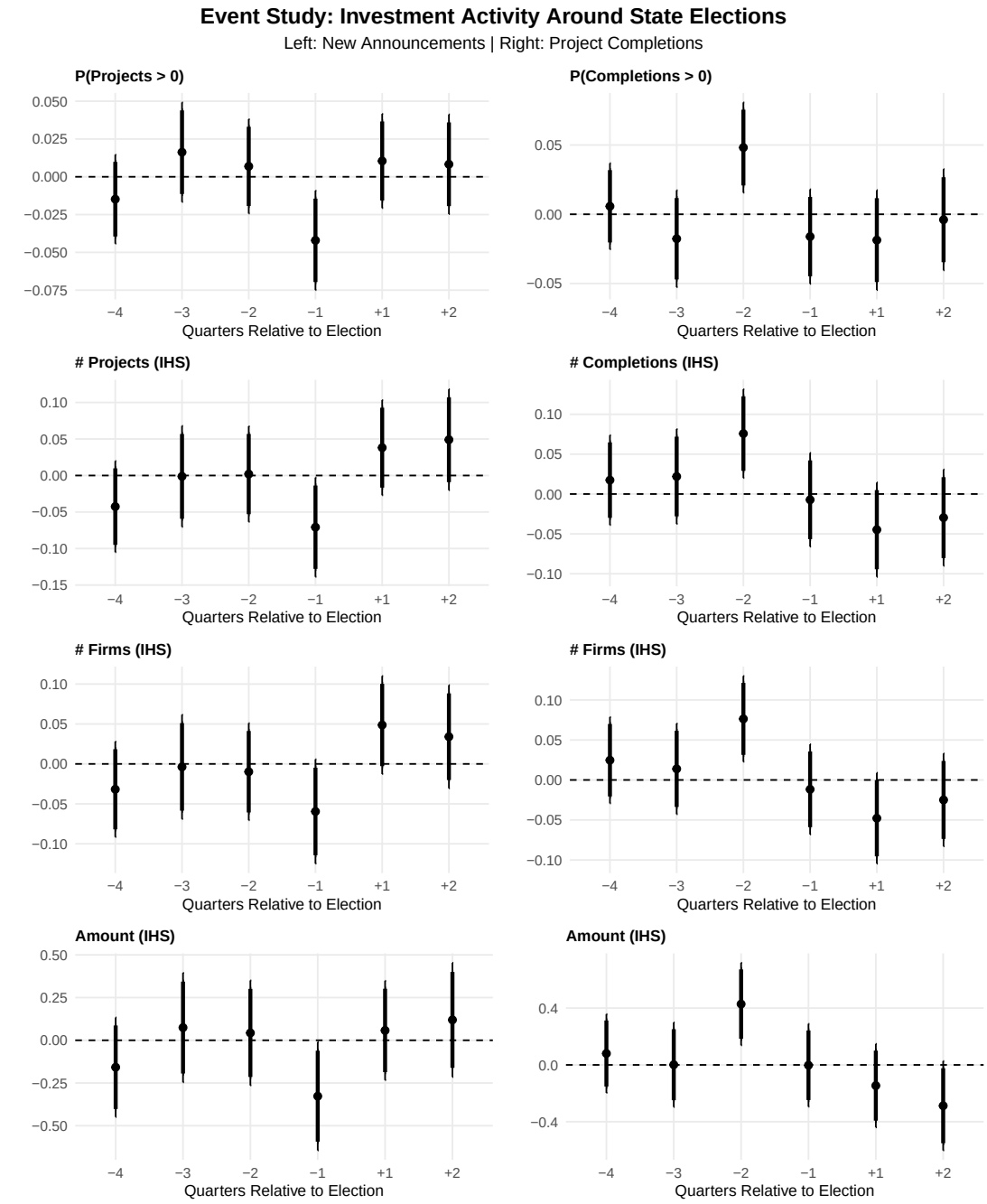
Notes: Panel (a) shows the distribution of mean margin of victory across 100 state elections, where each observation is the average MOV across all constituencies in a given election. Panel (b) shows the distribution of raw margins of victory across 23,998 contested constituency races. Dashed lines indicate the median. Elections with below-median mean MOV are classified as "close."

Appendix C. Pre-Election Results

TABLE A2. Effect of Pre-Electoral Period on Investment Activity

	Announcements (Quarter −1)				Completions (Quarter −2)			
	P(Project)	# Projects (IHS)	# Firms (IHS)	Amount (IHS)	P(Completion)	# Completions (IHS)	# Firms (IHS)	Amount (IHS)
Pre-Election Quarter × Treat	−0.042**	−0.071**	−0.060*	−0.327**	0.048***	0.076***	0.076***	0.428***
	(0.017)	(0.035)	(0.033)	(0.162)	(0.017)	(0.028)	(0.027)	(0.148)
FE: Election × State	✓	✓	✓	✓	✓	✓	✓	✓
FE: Election × Time	✓	✓	✓	✓	✓	✓	✓	✓
Observations	32,340	32,340	32,340	32,340	32,340	32,340	32,340	32,340
R^2	0.646	0.840	0.829	0.863	0.623	0.789	0.780	0.821

Notes: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$. This table reports stacked difference-in-differences estimates of the effect of electoral uncertainty on private sector investment. Announcements are measured in the quarter immediately preceding elections (months 0, −1, −2); Completions are measured one quarter earlier (months −3, −4, −5). P(Project) and P(Completion) are binary indicators for any investment activity in a state-month. IHS denotes inverse hyperbolic sine transformation. Standard errors clustered by state × month.



−1 includes election month. Each quarter compared to all other periods. 90% and 95% CI shown.

Appendix D. Chief Minister Turnover

TABLE A3. Sample of CM Turnovers

State	Year	Incoming CM	Party	Home District
Andhra Pradesh	2014	N. Chandrababu Naidu	TDP	Chittoor
Assam	1996	Prafulla Kumar Mahanta	AGP	Jorhat
Assam	2001	Tarun Gogoi	INC	Dibrugarh
Assam	2016	Sarbananda Sonowal	BJP	Jorhat
Chhattisgarh	2003	Raman Singh	BJP	Durg
Haryana	1996	Bansi Lal	HVP	Sirsa
Haryana	2000	Om Prakash Chautala	INLD	Rohtak
Himachal Pradesh	2007	Prem Kumar Dhumal	BJP	Shimla
Himachal Pradesh	2012	Virbhadra Singh	INC	Mandi
Himachal Pradesh	2017	Jai Ram Thakur	BJP	Hamirpur (HP)
Jammu & Kashmir	1996	Farooq Abdullah	NC	Anantnag
Jammu & Kashmir	2008	Omar Abdullah	NC	Anantnag
Karnataka	1999	S. M. Krishna	INC	Gulbarga
Karnataka	2013	Siddaramaiah	INC	Mandya
Kerala	2006	V. S. Achuthanandan	CPM	Kottayam
Kerala	2011	Oommen Chandy	INC	Kannur
Maharashtra	2014	Devendra Fadnavis	BJP	Mumbai
Odisha	2000	Naveen Patnaik	BJD	Kendujhar
Punjab	1997	Parkash Singh Badal	SAD	Patiala
Punjab	2002	Amarinder Singh	INC	Faridkot
Punjab	2007	Parkash Singh Badal	SAD	Patiala
Rajasthan	1998	Ashok Gehlot	INC	Bharatpur
Rajasthan	2003	Vasundhara Raje	BJP	Jodhpur
Rajasthan	2008	Ashok Gehlot	INC	Bharatpur
Rajasthan	2013	Vasundhara Raje	BJP	Jodhpur
Rajasthan	2018	Ashok Gehlot	INC	Bharatpur
Sikkim	1999	Pawan Chamling	SDF	West Sikkim
Telangana	2014	K. Chandrashekhar Rao	TRS	Mahbubnagar
Tripura	1998	Manik Sarkar	CPM	Gomati
Uttar Pradesh	2007	Mayawati	BSP	Etawah
Uttar Pradesh	2012	Akhilesh Yadav	SP	Pauri Garhwal
Uttarakhand	2002	N. D. Tiwari	INC	Dehradun
Uttarakhand	2007	B. C. Khanduri	BJP	Allahabad